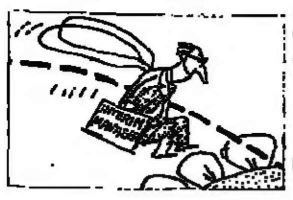
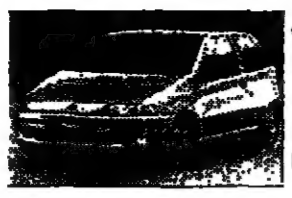


Troubleshooters
Outside managers for short-term problems
Page 8



Tomorrow dawns
Why the Punto may be Fiat's turning point
Page 10

Change in Japan
Is this the end or the beginning?
Page 11

Sumner Redstone
Why MTV is music to Grumpy's ears
Interview, page 28

FINANCIAL TIMES

Europe's Business Newspaper MONDAY AUGUST 9 1993 D8523A

Palestinians face split over Middle East peace talks

Three senior members of the Palestinian delegation to the flagging Arab-Israeli peace talks flew to Tunis, base of the Palestine Liberation Organisation, and were reportedly tendering their resignations to PLO leader Yassir Arafat (left). The move comes after differences with PLO leaders on how best to conduct talks with Israel and has re-ignited debate in Israel about whether the Jerusalem government should open official contacts with the PLO. Page 12

US soldiers die in ambush: President Bill Clinton promised "appropriate action" against those responsible after four US soldiers died in a landmine ambush in Mogadishu, the Somali capital. Page 12

Floods in Japan kill 41: Heavy rain in southern Japan caused floods and mudslides which have left 41 people dead and 22 missing. Picture, Page 4

French retailers falter: Galeries Lafayette, La Redoute and a number of other French retail groups have announced falls in first-half sales, highlighting the sector's depressed state. Page 13

Virgin defies French trading law: British leisure group Virgin opened its megastore on the Champs Elysées in Paris to Sunday shoppers, even though it meant incurring a FFr1m (£114,000) fine. Page 2

Air Canada reported its first profitable quarter in almost two years, helped by a C$46m (US$35.7m) fuel tax rebate. The June quarter net profit was C$14m against a loss of C$129m a year earlier. Page 15; Swissair results, Page 15

Russia asks for UN help: Russia and the Central Asian republics have asked the United Nations to send observers to the Tajik-Afghan border in an attempt to end Afghan attacks. Page 3

China seeks 10.5% inflation: China's annual inflation rate could slow to 10.5 per cent if the country's macro-economic control measures proved effective, a government analyst said. Page 4

Extra maternity benefits may cost £60m: British employers could face extra costs of up to £60m ($89m) a year because the government will not offset the costs of bringing UK maternity benefits into line with EC requirements. Page 5

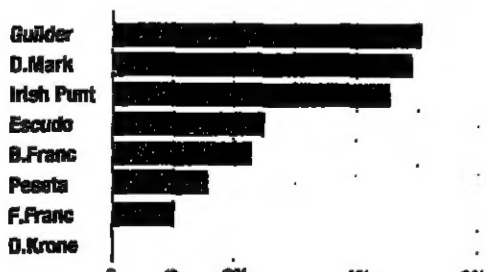
Nynex signs deal with BT: Nynex, US-owned cable operator, has signed an inter-connection deal with British Telecommunications. Until now, US cable operators have relied exclusively on Mercury to carry international calls originating from their local networks. Page 5

Earthquake hits Guam: An earthquake measuring 8.1 on the Richter scale – the most powerful recorded for four years – injured 48 people in the Pacific island of Guam.

Aircraft crashes in Stockholm: A Swedish military aircraft crashed during an air display in the centre of Stockholm and landed in woodland next to a densely populated suburb. The pilot ejected and there were no casualties.

European Monetary System: Most ERM currencies can now operate in fluctuation bands of up to 15 per cent, but one week after the the introduction of the new rules, all the currencies are within 6 percentage points of one another in the ERM grid. The French franc is nearly 4 percentage points weaker than the D-Mark, well outside its former fluctuation band of 2.25 per cent. Currencies, Page 23

EMS: Grid August 6, 1993



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. After the reformation of the exchange rate mechanism on August 2, 1993, one member currency can rise against another by as much as 15 percentage points in the system's grid. The sole exception is the divergence between the D-Mark and the Dutch guilder, which remain tied to each other in a 2.25 per cent band.

Belarus seeks currency union: Belarus, having seen its surrogate currency tumble after the Russian central bank's withdrawal of pre-1993 banknotes, is trying to tie its economic survival to a new currency union with Russia. Page 3

Italian troops fight fires: A tourist was killed and hundreds of people fled forest fires on Sardinia as troops were deployed to put out blazes on the island and elsewhere in Italy.

'Red chip' flotation: Fortune Oil, a company partly under Chinese state ownership created to capitalise on the rising stream of oil imports into China, is to be floated on the London Stock exchange. Page 13; The listing of the first 'red chip' company, Page 14

Bi-partisan approach with Republicans needed for future legislation

Clinton seeks deal with Congress

By Roger Matthews in Washington

US DEMOCRAT leaders yesterday sought to capitalise on President Bill Clinton's one-vote budget victory on Friday night by seeking to establish a bi-partisan approach to the next important pieces of legislation due to be presented to Congress.

"I think that in the process of governing a president has to work with the Congress to put together majority support for a package of changes that can pass," Mr Al Gore, the vice-president, said yesterday.

Mr Gore said he had repeatedly reached out to his Republican opponents during the early months of the administration but had been rebuffed. However, he said: "In order to address the important challenges we face now we have got to try and create a bi-partisan approach."

The loss of just one more vote among the 535 members of Congress would have been enough to defeat Mr Clinton's economic package and deal a lasting blow to his presidency.

The House of Representatives passed the compromise bill, which aims to cut $496bn from the budget deficit over the next five years, by 218-216, and it squeezed through the Senate only on the casting vote of Mr Gore.

All Republicans in both houses voted against the budget bill. But Mr Bob Dole, the Senate minority leader, said yesterday he had telephoned Mr Clinton to congratulate him on his budget victory and to suggest that there were other issues ahead on which they could work together.

- White House starts to ponder the price of victory Page 2
- Editorial comment Page 11
- Lex Page 12
- Bond market Page 16

He appeared to soften the Republican position on the possible imposition of higher payroll taxes to pay for an improved health care programme, another key element in President Clinton's programme. Mr Dole denied telling Mr Clinton that "under no circumstances" would Republicans approve higher charges, but instead "strongly disapproved" of any such proposals. "We have left the door open", he said.

But he also stressed that it would be a mistake for liberal Democrats to believe they could raise taxes and then come back later this year and demand Republican support for additional spending cuts. "That's not going to happen", he said.

Mr Gore said he had always been confident of victory and claimed people would now begin to see the benefits of the bill after all the disinformation and misrepresentation of the past weeks. Controversy had been inevitable, he declared, because the administration was trying to change the course of the nation by creating jobs and moving the economy in the right direction after 12 years during which the federal deficit had quadrupled.

He promised further spending cuts in the autumn, especially as a result of his own programme to reduce government overheads, and forecast that long-term interest rates would continue to decline. The tax cuts for small businesses would help to create new jobs, he said.

Other members of congress were meanwhile counting the cost of the support they had given to the budget bill – none more so than Senator Bob Kerrey of Nebraska, who kept Mr Clinton and the nation in suspense until the last minute before announcing he would vote "yes". Asked how the people of Nebraska responded to his decision, he said: "Suffice to say I went to see the movie "The Fugitive" last night".

He and other Democrats who appeared to go against the wishes of the majority of their voters are certain to have an uphill battle to win re-election.

Major revives 'hard Ecu' proposal

By David Owen and James Blitz in London and Ariane Genillard in Bonn

MR JOHN MAJOR, the UK prime minister, yesterday entered the debate over the future of European monetary union by reviving his proposal for a "hard Ecu" currency unit to trade alongside Europe's national currencies.

A spokesman for Mr Major said a proposal for a hard Ecu would be considered as "one of a number of options" for improving economic co-operation in the European Community.

The move appears designed to ensure that the recent turmoil in Europe's exchange rate mechanism does not trigger moves by an inner core of EC states to create a fast track towards monetary union, with Britain outside.

During negotiations on the Maastricht treaty in 1991, Mr Major lobbied strongly for the hard Ecu concept as an alternative route towards European monetary union.

The idea was rejected by Britain's EC partners. But last weekend's agreement to widen the fluctuation bands for most ERM currencies has raised strong doubts about whether the current Maastricht plan for Emu remains valid.

There was no reaction to the proposal from European officials yesterday. But the finance ministers of France and Germany, the two countries at the heart of the ERM crisis, reiterated their confidence that the existing timetable for Emu was valid and that the ERM could return to narrow bands in the near future.

Mr Theo Waigel, the German finance minister, told German television that the widening of the ERM bands did not compromise the move to stage two of the Maastricht treaty at the start of 1994, which involves the setting up of a European Monetary Institute to act as a model for an EC central bank.

Mr Edmond Alphandéry, his French counterpart, commented: "People have underestimated the strength of our collective European commitment."

Sir Leon Brittan, the EC vice-president, also warned that some of Britain's EC partners

Continued on Page 12
D-Mark instability, Page 4

Nato officials say allies remain divided on the scope and timing of any action

Air strikes vital for Bosnia talks says Izetbegovic

By Laura Silber in Geneva and Gillian Tett in London

BOSNIA'S president Alija Izetbegovic yesterday warned peace talks would collapse unless Nato launched air strikes against Serb artillery maintaining a stranglehold on Sarajevo.

"I can say if there are no air strikes, then there is no peace process. No negotiations," he said in an interview on the eve of scheduled talks with Bosnian Serb leader Mr Radovan Karadzic and his Croat counterpart Mr Mate Boban.

"But I think we have never been closer [to air strikes] than now. It must be within two or three days, if the talks are to continue." Bosnia's Moslem president added.

He said air strikes were a crucial test that would add weight to the negotiations; without intervention, he dismissed the talks as "worthless".

However, Nato officials indicated Mr Izetbegovic's appeal was likely to receive a cool response when Nato ambassadors met today in Brussels to discuss possible air strikes. Nato did not intend the Bosnian Moslems to use the hope of military intervention as an excuse for stalling the talks, an official said.

Today's meeting is expected to agree on logistics for any future air strikes, out of a list of options finalised by the Nato military committee in Brussels at the weekend.

However, officials warned that the allies were unlikely to authorise air strikes today, with significant differences remaining about the scope and timing of any action.

Bosnian Serb leaders, in an apparent attempt to stall the threat of Nato military action, yesterday reiterated their offer to withdraw from strategic heights overlooking Sarejevo. Last night General Ratko Mladic, Serb military commander, announced he had reached agreement with UN forces that would lead to a phased withdrawal of his troops from the mountains.

Mr Izetbegovic repeated his threat to boycott the peace talks if Bosnian Serb forces refused to withdraw. He said Sarajevo would "never fall" to Gen Mladic. "They cannot enter the city. Every street is defended, every house."

In sharp criticism of western policy, he singled out the UK for undermining his government over the past 16 months of war. "They had two ways to help. Either directly through intervention or to lift the arms embargo. They did not do anything. Now we are left with our hands tied."

Indicating he had, however, accepted Bosnia's tri-partite division, he outlined what he called his minimum requirements for a Moslem republic: "A fair map for the Bosnian republic with access to the River Sava and the sea. We must have territory covering an area suitable for 2.5m citizens."

Associated Press

Sarajevo residents hurry with supplies of precious water through an area where sniper fire is common

However, he refused to say whether he would back a proposal by Lord Owen and Mr Thorvald Stoltenberg, the international mediators, which would give Moslems a minimum 30 per cent of Bosnian territory. Moslems comprised the biggest ethnic group – 44 per cent of the 4.35m population – in pre-war Bosnia.

Editorial Comment, Page 11

VW admission over secrets fuels tension with Opel

By Christopher Parkes in Frankfurt

THE "belated admission" that Volkswagen employees had had confidential General Motors documents in their possession, and had destroyed them, would be of special interest to criminal investigators, Adam Opel, GM's German subsidiary, said yesterday.

Claims that Opel's allegations of industrial espionage, by Mr José Ignacio López de Arriortúa, VW's new production director, were part of a campaign to defame the Wolfsburg concern and Germany had collapsed, it added.

VW's potentially damaging admissions are believed to be contained in a written statement sent by Mr López to public prosecutors investigating industrial espionage suspicions against him and three VW colleagues, also former GM employees.

"Based on the present status of the investigation, it is apparent that in a concerted action thousands of pages of highly sensitive data concerning cost structures, manufacturing and future planning were stolen." Opel claimed.

The US-owned company was responding to a statement published after a crisis meeting of the VW supervisory board in Wolfsburg on Friday, which restated its "unaltered support" for Mr López, former global purchasing director at GM.

The 20 board members, who appoint and oversee the work of group executives, declared that a thorough examination of evidence from Mr López had shown nothing to warrant charges of industrial espionage.

However, the statement said possibly sensitive information had been destroyed by former GM employees, working for VW since March in the group's official guesthouse in Wolfsburg and at a private house in Wiesbaden.

The documents had been destroyed to avoid any danger of their circulating inside VW, the statement said. "No possibly secret documents left the possession of former GM employees and came into the possession of VW."

Opel retorted yesterday that the information was technically and legally in VW hands. The attempt to suggest it was shredded in the interests of Opel was an untenable attempt to conceal the possession of a competitor's secrets, the company added.

The VW meeting on Friday was called unexpectedly following a what had been a period of mounting tension between members of the supervisory board, some of whom had complained that they were not being kept up to date with developments in the case.

Spying controversy, Page 2
VW versus old school, Page 28

Austria	Sch30	Germany	DM3.30	Malta	Lm0.60	S.Arabia	SR11
Bahrain	Din1.250	Greece	Dr300	Morocco	MDh13	Singapore	S$4.10
Belgium	BFr65	Hungary	Ft172	Neth	Fl 3.75	Slovak Rp	KSL45
Bulgaria	Lw25.00	Iceland	IKr215	Nigeria	Naira45	Slovenia	SLT220
Croatia	HRD5700	India	Rs40	Norway	NKr16.00	South Africa	R12.00
Cyprus	C£1.00	Israel	Shk5.90	Oman	OR1.50	Spain	Pta210
Czech Rp	Kcs45	Italy	L2700	Pakistan	Rs35	Sweden	SKr15
Denmark	DKr15	Jordan	JD1.50	Philippines	Pso45	Switz	SFr3.20
Egypt	E£4.50	Kuwait	Fils 600	Poland	Zl 22,000	Syria	S£50.00
Finland	FM12	Lebanon	US$1.25	Portugal	Esc215	Tunisia	Din1.250
France	FFr9.00	Lux	LFr65	Qatar	QR12.00	Turkey	L8000
						UAE	Dh11.00

CONTENTS

 LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

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With his budget bill narrowly passed at last, the president can sigh with relief and look to the future

White House starts to ponder price of victory

By Roger Matthews in Washington

NO ISSUE was more central to Bill Clinton's campaign to become president of the US than the management of the economy, and nothing contributed more to the defeat of George Bush last November.

It is against that background that Thursday night's cliff-hanging vote in the House of Representatives on President Clinton's deficit-reduction budget bill, and the scarcely less dramatic vote in the Senate the following day, have to be seen. To have lost those votes, despite a Democrat majority in both houses, would not just have struck at the core of Mr Clinton's legislative programme, but would have also raised the most serious doubts about his ability to work successfully with Congress.

The wave of relief that swept through the White House shortly after 10pm on Friday, when the Senate finally gave Mr Clinton his bill after a week of frantic lobbying, was therefore all too understandable. A victory was all that mattered, even though in the event it was by just two votes in the House of Representatives and the tie-breaking vote of Vice President Al Gore in the Senate.

How large a political price Mr Clinton had to pay for that victory, both in the country at large and on Capitol Hill in particular, and the lessons he had gleaned from it, are likely to have a decisive bearing on the remainder of his presidency.

The learning curve for the relatively young Mr Clinton and his staff at the White House was always likely to be a sharp one, and at the weekend the debate was already well under way about how the presentation and compromises struck on the budget legislation could have been better handled. Somewhere in the course of the past five months, it is clear that the White House lost its ability to define the budget as offering a stimulus which would create jobs, and allowed the Republicans to present it instead as essentially a tax-raising exercise which would hit the living standards of middle-income Americans.

In part that was because Mr Clinton had to sacrifice important parts of the original bill. It did become essentially a budget-deficit reduction exercise, something that was not easy to sell politically, not least because the impact of the revenue-raising measures was felt immediately – even retroactively in the case of some income-tax increases – while the bulk of the cost-cutting will not occur until later in Mr Clinton's term.

But he also failed fully to get across the message that the tax changes, apart from the increase in gasoline tax, fell predominantly on the wealthiest and that there were positive benefits for many Americans on lower incomes. The repeated if unfair assertion by Republicans led by Mr Bob Dole, the Senate minority leader, that this was the biggest tax increase in US history, hit home. As public opinion polls demonstrated last week, Mr Clinton was never able to undo the damage.

Neither was the president able to demonstrate that he enjoyed the full support of the party he leads. Long-time observers of Congress assert that rarely before has there been such a collection of individualists on Capitol Hill who so readily put personal and local interests ahead of those of country and party. Add to that the loss of ability that modern presidents are said to suffer in enforcing party discipline, and Mr Clinton's problems last week become clearer. Faced by unanimous Republican opposition in both houses, all his lobbying time was consumed in attempting to whip recalcitrant Democrats into line.

For the optimists, the worst is now over. They argued yesterday that the budget bill was always likely to be the hardest piece of legislation to force through Congress, simply because it broke new ground by reversing the trend of the past 12 years. Even if its effect on the economy will be much less beneficial that its proponents would have the public believe, a start has been made. This in turn opens the door for the other key parts of the Clinton programme, such as the overhaul of the health care, changes to the welfare system, the passing of the North American Free Trade Agreement and Mr Gore's proposals for "re-inventing government", all of which are capable of attracting greater bipartisan support than was achieved during the budget debate. Mr Dole has already stressed that Republicans want to be "part of the action".

Democrats are cheered by indications that a number of Republicans are attracted by aspects of the work being done by the team headed by Ms Hillary Rodham Clinton on health care, although once again the critical issue will be on how the reforms are to be paid for. Republican leaders said yesterday they hoped that the administration had learned its lesson during the budget battle and now understood that the public would not tolerate any further tax increases.

Certainly, Mr Clinton once again has everything to play for. His political standing in the country may not have been much enhanced by his budget victory, but neither has it been seriously tarnished. One thing has assuredly not changed. He will continue to be judged fundamentally on the performance on the economy. Mr Clinton was elected to turn it around, and will sink politically if he fails.

Budget is 'all about paying for the 1980s'

Nancy Dunne on the debate over the economic effects on the real world

A TRILLION dollars would equal a stack of $1,000 bills 67 miles high. That is what Ronald Reagan told Congress in February 1981, when the US national debt was edging up to this thousand billion level but was still a meagre $934bn (£627bn).

Twelve years later the national debt is $4.3 trillion – and the stack of $1,000 bills is 388 miles high. Clearly, something went very wrong. But, as if indifferent to this dismal track record, politicians did not refrain this week from confidently issuing either forecasts of disaster or extravagant claims of achievement if the Clinton economic plan – the latest solution to massive US budget deficits – was enacted.

President Reagan's recipe to boost the economy was to cut personal income tax rates by 10 percentage points over three years and give tax breaks to business as well.

This time the Republicans said the Clinton budget package would smash the prospects for 800,000 small businesses, cost jobs and retard the recovery. Democrats said it would cut the deficit by $500m over five years, turn the country around, end the "gridlock" in Congress and create 8m jobs.

Among the budget's 15 pounds of pages (according to one congressman, who presumably brought a scale to his office) are thousands of provisions whose effects were vigorously debated.

"As surely as night follows day, these proposals provide those who save the most with the incentive to save less," declared Congressman Rick Lazio, a New York Republican. "With productivity finally on the move, these tax changes provide the incentive to work less or not as hard."

In Texas alone, the new taxes will cut 41,000 jobs, said Congressman Jack Fields, another Republican. The legislation would provide $3 in tax rises and fees for every $1 in "promised future spending cuts".

Congressman James Moran, a Virginia Democrat, had a different view. The legislation would reduce real estate taxes, encourage debt restructuring, authorise mortgage revenue bonds and low income housing tax credits. It would "break the back of the credit crunch that is strangling this economy and reduce the number of properties that have to be seized by failed banks".

Meanwhile, economists in the real world were watching the "theatre of the absurd", as one called the congressional show this week. Most said the impact of the legislation on the US economy would be slightly negative in the short run, modestly positive over the long term and possibly negligible overall.

Economists believed it contained little economic stimulus although the $21bn to be returned to the "working poor" in earned income tax credits might boost some additional spending.

However, Mr Richard Hoey, chief economist at the investment fund group Dreyfus, is worried about the impact of the budget on consumer spending habits of the well-off. He said: "I think it's a depressant on the consumer area – what you have is a permanent income tax increase on the higher-spending portion of the population."

He believes higher taxes will crimp consumer demand, which will "keep the US economy in a restrained expansion mode".

Mr Robert Brusca of Nikko Securities agrees that President Clinton is wrong to have targeted high-income individuals for tax increases. "He's taking too much money away from people who aren't as rich as he thinks... The economy is weak and it's going to hurt."

Many economists initially were disappointed that the president did not seek a larger budget reduction package. But upon seeing the "absurd spectacle" in Congress, they began to think that Mr Clinton had done the best he could.

Mr Bruce Steinberg, a manager at Merrill Lynch, said a tax payment of this scale in the economic package – about $240bn – would usually tend to slow the economy. But more than half the fiscal drag would be offset by interests rates lower than they would be without deficit reduction.

"The effect is at most 0.5 per cent of GDP, most likely only 0.1 or 0.2 per cent," he said.

The tax package might hurt some small businessmen, whose tax rates could rise from 31 to 36 per cent if they earn more than $200,000 a year. But "a lot of these guys are doctors, lawyers and accountants" who do not hire many workers in any case, Mr Steinberg said.

Mr Barry Bosworth, an economist with Brookings Institution said there would be "very small" depressive effect in the short run.

However, a smaller deficit means less government borrowing and higher savings and capital formation for the private sector. Much of the corporate finance restructuring is over, but corporations still are not borrowing much, which is one reason for the lower long-term interest rates.

Mr William Griggs, a former Treasury official, agreed with Republicans who wanted to stress budget cuts over new taxes which probably would not produce the revenue the president expected. However, "the depressing effects of this have been overdone," he said. "We will get a rise in confidence from having it passed and most taxpayers will find they have almost no tax increase."

The consensus is that job creation may move more slowly than without the new taxes, but the 2m jobs that Mr Clinton promised in the election will still be created this year, and labour force growth has slowed.

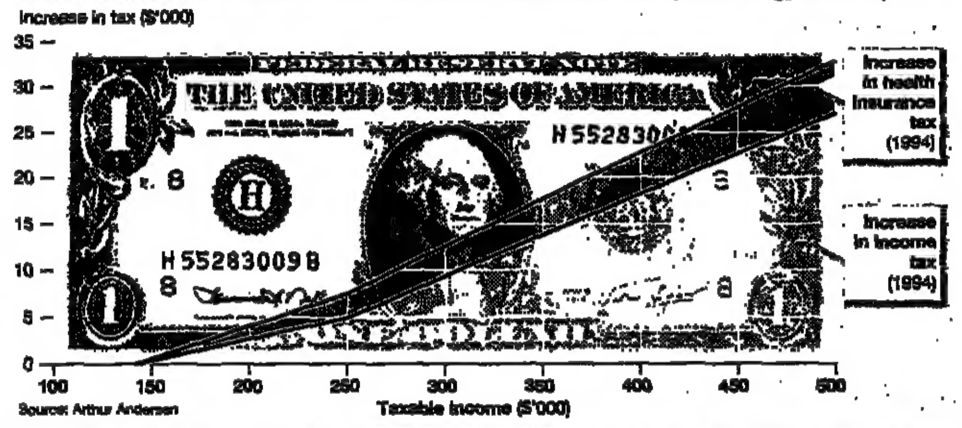
The budget deficit had to be attacked at some point. "It's all about paying for the 1980s," said Mr Griggs.

President Clinton's deficit reduction plan

Major provisions	1994-98 ($bn)
Total deficit reduction	496
Net spending cuts	255
Total revenue increases	241
Savings preserved in deficit reduction trust fund	496
Savings available to be spent	0

Tax increase: who pays?

Combined effect of new individual income tax rates and health insurance tax (married, filing joint returns)

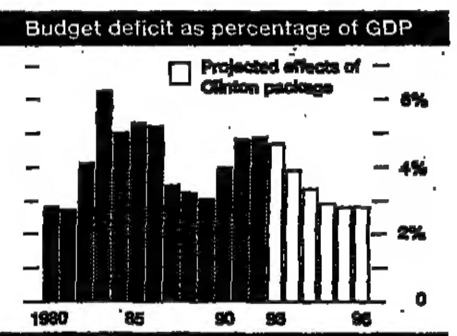


Source: Arthur Andersen

Main spending cuts

	1994-98 ($bn)
Discretionary spending freeze (1993 levels)	-102.1
Medicare	-56.0
Retirement	-11.8
Medicaid	-7.0
Radio spectrum auction	-10.2
Student loan reform	-4.8
Agriculture	-3.0
Banking and housing	-2.9
Customs savings	-2.5
Veterans	-2.6
Welfare savings	-1.1

Budget deficit as percentage of GDP



Main tax changes*

	1994-98 ($bn)
Upper-income individual taxes:	
Increased rates for high-income individuals	-115.1
Repeal $135,000 Medicare payroll tax wage cap	-29.2
Corporate tax rate/estimated tax	-24.2
Social Security	-24.6
4.3 cents fuel tax	-24.3
Low-income housing credit	4.9
Research tax credit	4.9
Small business expensing	4.6
Targeted capital gains for small business	0.8

Investment in people

	1994-98 ($bn)
Earned Income Tax Credit	20.8
Food Stamps	2.5
Inner city tax incentive	3.5
Family preservation and support	1.0
Child Immunisation	0.5
Education benefits tax exclusion	0.9
Targeted Jobs Tax Credit	0.7

Source: Senate Budget Committee, US Office of Management and Budget

* Revenue increases shown as negative numbers

Deficit plan's impact already discounted

By Patrick Harverson, Karen Zagor and Nikki Tait in New York

CONGRESSIONAL approval of President Bill Clinton's economic plan is unlikely to provoke much reaction from investors when US financial markets open today. The budget measures have been debated for several months, and their impact on the economy has already been priced into both bonds and stocks.

In some quarters of industry, the 11th-hour haggling over the package produced noticeable sighs of relief. The General Aviation Manufacturers Association, which represents makers of small aircraft and corporate jets, described the proposed repeal of the luxury tax as good news.

"That has been a deterrent, especially to those buyers who use an aircraft partly for business and partly for their own use," said GAMA. The trade association also breathed more easily when it learnt that new registration fees would not be imposed on aircraft, and welcomed the much smaller than threatened 4.3 cents a gallon petrol tax. "That's not going to kill us," it commented.

The National Marine Manufacturers Association was equally encouraged, and glad to see that the tax on luxury items priced at above $100,000 (£67,000) died.

A spokesman said: "The tax cost about 25,000 to 30,000 people their jobs on boat lines. It decimated sales of the product, which fell about 70 to 80 per cent. So its demise is good news for boating and for the big boat sector particularly."

Other industry groups were critical of some of the concessions made. The beleaguered commercial airline industry said that it remained adamantly opposed to the imposition of increased taxes on jet fuel – despite the fact that these duties will not now come into effect until October 1995.

"We're continuing to oppose the fuel tax on airlines," said the Air Transport Association, which represents the main US carriers. "The two-year exemption is not really the point... we think we make our fair contribution already."

Mr Eric Johnson of the Northeastern Loggers Association

'The president compromised a bit too much and that may come back to haunt him'

also criticised some of the last-minute haggling, in which senators won concessions for special interest groups, in exchange for supporting the package. "I'm afraid the president compromised a bit too much and that may come back to haunt him," he said.

Meanwhile, Monsanto, the big US chemical company, expressed its displeasure over a 90-day moratorium on the sale of bovine growth hormone – a measure designed to appease Senator Russell Feingold, a Wisconsin Democrat who had pushed for a one-year delay. The moratorium will start after the Food and Drug Administration approves the drug, expected later this year.

"Even if it had come down to a one-day moratorium we would have thought it was wrong," said Monsanto. "It violates having a scientific-based regulatory process. There is no reason and no justification for it and we believe that most members of Congress feel that way as well."

Megastore open despite FFr1m Sunday trading penalty

Fine day for Virgin in Paris

By Alice Rawsthorn in Paris

VIRGIN, the British leisure group, yesterday again defied the French authorities by opening its opulent megastore on the Champs Elysées in Paris, even though it meant paying a legal fine of FFr1m (£114,000).

Mr Patrick Zelnick, the flamboyant chairman of Virgin in France who has led the two-year battle against France's Sunday trading ban, described yesterday's opening as "a bit like a last stand". The shop opened as usual at noon with a banner emblazoned across its facade saying "In the name of Sunday we'll fight to the end."

Virgin said, however, that it would decide this week whether to open next Sunday.

The latest bout of the Sunday trading battle began last month when the CGT trade union won a court order to force Virgin to close on Sundays. Virgin has continued to trade despite the ban and on Friday won an appeal to reduce its fine from FFr4m to FFr1m.

"It's obvious that we can't carry on paying such huge penalties," said Mr Zelnick, who throughout the Sunday campaign has shown the same flair for attracting media attention as Mr Richard Branson, Virgin's founder. "But we're still opening the store today to show how stupid the situation has become."

The Champs Elysées megastore, set in a lavishly renovated banking hall, usually attracts 30,000 customers and generates a fifth of its weekly sales on Sundays. The timing of the current skirmish could scarcely be better for Virgin, which would usually expect to see business slow down in August, a holiday month in France. However the shop was packed yesterday, not only with shoppers, but with television crews and journalists.

"This is the first time I've been here," said Ms Séverine Hinault, 22, a student from the Paris suburbs. "I didn't even realise Virgin was open on Sundays until I saw the television coverage of the campaign. The store looked so great that I had to come."

"I'm here to show my support for Virgin," said Mr Guillaume Rochard, a 23-year-old office worker. "I often come on Sundays to spend a couple of hours in the store. I work all week so I don't have time to shop. Why shouldn't Virgin open on Sundays? It isn't doing any harm."

The shop has set up a special counter where Mr Rochard can sign a petition in support of its campaign. Mr Branson has said 450,000 people have signed so far. Virgin also sells campaign T-shirts – bearing the slogan "I vote yes to the Virgin megastore opening on Sunday" – for FFr44 each.

Virgin has stepped up its lobby to persuade the government to reform the 1906 Sunday trading laws. Mr Branson last week threatened to scrap his plans for expansion in France, which could involve creating 1,000 jobs in five years by opening 25 new shops.

The government has been split over the Virgin battle. Mr Jacques Toubon, arts minister, has argued that Virgin should be exempted from the Sunday ban. Mr Michel Giraud, employment minister and the chief target of the union protest, has urged Virgin to respect the law but promised that parliament will debate the 1906 legislation this autumn.

Associated Press

"In the name of Sunday we'll fight to the end," reads the banner outside Virgin's Paris megastore yesterday

Actress named to chair US arts agency

By Karen Fricker in New York

PRESIDENT Bill Clinton made his first big move in arts policy at the weekend by nominating award-winning actress Ms Jane Alexander to chair the National Endowment for the Arts (NEA), the government agency which issues grants to performing and visual artists.

The chair has been vacant since January when Ms Anne-Imelda Radice, a conservative Bush appointee, stepped down; it has been filled in the interim by Ms Ana Steele, a longtime NEA employee, who said Ms Alexander was "a superb choice".

The Endowment, which has a budget this year of $174m (£117m), has been under heavy attack in recent years from members of Congress and conservative religious organisations who question the government's use of public funds to support artists who treat sexual and religious material in an outspoken manner.

In a statement on Saturday Mr Clinton said: "The Endowment's mission of fostering and preserving our nation's cultural heritage is too important to remain mired in the problems of the past."

Ms Alexander is currently starring in the hit play The Sisters Rosensweig on Broadway.

She has performed in 40 films and over 100 plays in New York and the regions.

VW steers away from spying controversy

By Christopher Parkes in Frankfurt

A MONTH or more after joining Volkswagen, former General Motors managers were still working diligently on their old employer's behalf.

Shredding documents is not the sort of work automotive purchasing and production men are used to, but they got on with the job.

According to Volkswagen, they took pains to ensure that documents which could "possibly" belong to GM and could "possibly" contain sensitive information were destroyed. Their aim was to "avoid any danger" that the information should fall into VW hands – in other words they were working in the interests of their ex-employer, General Motors.

Eye-witnesses said two of the group, Mr Jorgé Alvarez Aguirre and Mr Rosario Piazza, worked through one night in April, filling a van parked outside a Wiesbaden house "metres-high" with bags of confetti.

According to VW, others carried out their shredding in the Gästehaus Rotehof, a comfortable Wolfsburg hostelry owned by Volkswagen and used customarily for entertaining distinguished visitors. Mr José Ignacio López de Arriortúa, newly appointed production director and ex-GM global buying chief, for example, stayed there while house-hunting.

In one 30-line statement, issued close to midnight on Friday, Volkswagen effectively put paid to its new employees' persistent claims that none of them took any documents when they left GM and Adam Opel, the US group's German subsidiary last March. Since GM papers are now admitted to have been in the hands of VW employees on VW property, it will make it more difficult for the German group to sustain claims that no secrets made their way to the Volkswagen headquarters at Wolfsburg.

Opel said yesterday that the weekend's admissions – notably on the Rotehof shredding activities – would be of particular significance to public prosecutors investigating suspicions of industrial espionage against Mr López and three associates.

The bizarre statement, which emerged after a meeting of the German group's supervisory board, was otherwise much as expected. The board, which hires, fires and ensures the decent conduct of executives, restated "unaltered confidence" in Mr López and in chairman Mr Ferdinand Piëch's claim that the group would break even this year.

As befits a case in which disappearing acts have so far been everyday occurrences, there was much missing from the board's declaration. There was, for instance, no mention of the shredders' names and no explanation of how or why the papers were taken or sent to Wolfsburg.

But something else was missing. Although the statement reiterated its support for Mr López, there was no mention of a declaration two weeks ago in which an élite group of senior supervisory directors said they would stand by him unless and until he was found guilty.

Volkswagen is hanging on to its miracle-worker, but its grip appears to have loosened. But as in the past, the group refrained from offering any explicit support for his colleagues. Indeed, the shredding revelations suggested more than ever that Mr López's associates have been cut adrift.

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NEWS: INTERNATIONAL

Recovery seen emerging for Russia in 1996

By Leyla Boulton in Moscow

THE crisis of the Russian economy will continue well into next year, but economic recovery can be expected in 1996, according to the government's latest blueprint for market reform.

This medium-term programme, approved on Friday, also claims to have digested the lessons of last year, including the need for more social cushioning, more action against inflation, and selective rather than across-the-board support for industry.

It lists unchanged strategic aims, such as land reform, and sets out essential institutional changes, such as the creation of an effective secondary share market. The latter has failed to materialise so far, despite the issuing of millions of shares as part of an ambitious mass privatisation programme.

It also provides some details of a long-promised industrial policy. This includes, for instance, a need to convert military aircraft factories to the production of civilian aeroplanes – a process already under way. But, on a bloated sector such as metallurgy, it remains vague, talking of the need to reduce pollution and improve its raw materials base.

The programme expects the economy to begin stabilising in the second half of 1994, saying that the completion of mass privatisation by then will have improved company performance and financial discipline.

It hopes for inflation to fall to 5-7 per cent a month next year, compared to 19 per cent last month. It sees the budget deficit hovering beneath the target of 10 per cent of GDP target as early as last year. By the end of 1995 it expects the equivalent of 35 per cent of gross domestic product to be in state hands. It also expects an unspecified growth in living standards by then.

In 1996, along with a halt in the slide of Russian energy production, and stabilisation of agricultural output, it predicts the beginnings of a resumption of economic growth.

Finalised after last month's botched monetary reform, the report says, "there are no serious reasons to predict catastophe unless we ourselves bring them into being".

● The European Commission announced at the weekend a temporary solution to a row with Russia over aluminium imports, by announcing it would restrict imports from the Commonwealth of Independent States to 60,000 tonnes between now and November.

This quota would include unsold stocks on the London Metals Exchange. The Commission, under pressure from EC producers to limit imports which have hit prices, said an investigation had found unfair damage had been caused to EC producers.

Appeal for UN help over Afghans

By Leyla Boulton in Moscow

RUSSIA and the Central Asian republics have appealed to the UN to mediate, and to send observers to the Tajik-Afghan border, in an attempt to end Afghan attacks on a strategic border of the Commonwealth of Independent States.

At a weekend summit to discuss the Tajik crisis, Russian President Boris Yeltsin failed to extract specific commitments from his Central Asian partners for a joint peace-keeping force. So far, the brunt of peace-keeping has been carried by the Russian army, with help from Uzbekistan and a single battalion from Kyrgyzstan.

The president of Turkmenistan, which plans to operate alone economically and politically by relying on vast reserves of natural gas, did not attend the meeting. Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan endorsed, with Russia, a vague statement that they would respond appropriately if attacks were to continue, and that Tajikistan would receive more military and humanitarian assistance.

The foreign ministers of the five countries appealed to Mr Boutros Boutros Ghali, UN secretary-general, for mediation to pave the way for talks with Afghanistan. They also asked the UN Security Council to send observers to the border and to examine urgently a crisis combining attacks from Afghanistan and civil war in Tajikistan.

Meanwhile, Mr Eduard Shevardnadze, the leader of Georgia, another war-torn republic south of Russia, found himself the sole master of the local combination of economic mess and civil war, his cabinet having been forced out of office by parliament on Friday. Mr Shevardnadze, adding the premiership to his already dominant role as head of state, claimed Georgia faced extinction unless emergency powers were concentrated in his hands.

Eduard Shevardnadze: Sole master of the Georgian emergency

Belarus seeks currency union with Russians

By Matthew Kaminski in Minsk and Leyla Boulton in Moscow

BELARUS, having seen its surrogate currency tumble after the Russian central bank's withdrawal of pre-1993 banknotes, is now trying to tie its economic survival to a new currency union with Russia.

The value of coupons issued last year in Belarus to make up for a shortage of rouble banknotes from Russia has fallen 25 per cent in the past two weeks.

While roubles traded in Moscow have remained at about Rbs1,000 to the dollar, the coupon, called the hare because of the animal shown on the makeshift banknote, was fetching the equivalent of Rbs1,550 to $1 on Friday.

The weakening of the hare also means that Belarus has to pay more for Russian goods and receive less for its exports to Russia – a body-blow in that most Belarus trade is with its giant neighbour. The exchange rate between the Russian rouble and the Belarus rouble had risen from 1:1.8 on July 24 to 1:2.6 on Friday.

Unlike other former Soviet republics enraged by the Russian central bank's withdrawal of notes, the Belarusian government, always respectful towards Moscow in public, appears to accept the central bank move.

The reformist chairman of the Belarus parliament, Mr Stanislav Shushkevich, who is also head of state, insisted in an interview that the step had done "no great damage". Instead of introducing its own fully fledged currency, as some republics, such as Turkmenistan, plan to do, Belarus would keep the rouble on conditions to be agreed with Moscow, he said.

Similar undertakings were made at the weekend by Kazakhstan, the second largest former Soviet republic, and Uzbekistan, the most populous of the Central Asian republics.

Central Asian leaders, meeting Russian President Boris Yeltsin in Moscow at the weekend, called for a meeting on September 7 of all republics keen to build an economic union.

Russia has long demanded that republics abandon the rouble as their currency or subscribe to common budgetary, financial and monetary policies dictated by Moscow. The central bank move appears to have helped speed their decision.

"We are ready to establish common credit and bank policies, a common tax policy and to set aside all Customs duties," Mr Shushkevich said.

A small country of 10.7m people, which made up just 4 per cent of GDP of the former Soviet Union in 1992, Belarus has staked much political capital on rebuilding economic ties with the rest of the ex-Soviet Union.

Staying in a newly recreated rouble zone, government officials hope, might stem the drop in inter-republican trade, down by 40 per cent since 1991.

About 70 per cent of imports, including 90 per cent of energy supplies, come from Russia. "If our relations remained the same as before, the economy would be better," said Mr Vladimir Khilko, chairman of the Belarus Savings Bank.

To that end, even before the central bank move, Mr Vyacheslav Kebich, the prime minister and a conservative, last month agreed to work on an economic union with Russia and Ukraine, due to be signed next month.

Mr Kebich and Mr Shushkevich, political opponents, see eye-to-eye on economic union - though Mr Shushkevich, against a majority in parliament, opposes a collective security agreement with Russia.

Romanian coal miners flex their muscles

By Virginia Marsh in Bucharest

COALMINERS from Romania's Jiu Valley, who spearheaded violent anti-reform rampages through Bucharest in 1990 and 1991, are once again out on strike, pressing the government for higher wages.

But so far the government, unlike its predecessors, has not caved in. It has instead begun legal action to have the strike, which today entered its second week, declared illegal.

The miners' position seems untenable. Romanians appear solidly opposed to the strike, angered by the miners' demands for an average wage of the equivalent of $290 a month. Most workers earn less than $80. Workers in the same trade union confederation as the miners have ignored appeals by their leaders to strike in solidarity.

The Ministry of Industry argues that the 6m tonnes of pit coal produced each year in the Jiu Valley's 13 mines is not a vital source of energy. The region's coal supplies two nearby power stations but these plants, which together account for only 4 per cent of the country's electricity capacity, could also be run using lignite and gas.

The ministry further argues that the miners are in danger of pricing their coal out of the market. According to the ministry, if the miners' pay demands were met, the cost of their coal would double. Even at present prices, Ukrainian coal is being imported to the Romanian market.

The strike seems motivated by a number of factors. The rank and file have come out because they want more money to compensate for the difficult conditions in which they live and work.

They are also following the call of their charismatic leader, Mr Miron Cosma, the man who led them on protests to Bucharest and secured their earlier wage increases.

Mr Cosma's motive for calling the strike – for which, surprisingly, he has the support of RAH, the state-owned coal mining company – are less obvious.

The ministries of industry and finance are conducting investigations into charges of fraud and embezzlement by Mr Cosma and several senior RAH company officials. The company's chief accountant and budget director have already been fired, following earlier investigations.

Ministry of industry officials argue the strike could be an attempt to divert attention from the investigations.

Mr Cosma, however, appears confident. One of his bargaining tools is the threat, albeit veiled, of fresh violence.

In response to the question as to whether he intends to lead his men, who appear to support him whole-heartedly, to Bucharest again, he says: "With miners, anything is possible."

But he is also making political threats. In recent months, Mr Cosma has claimed he has evidence that senior government officials, including President Ion Iliescu, called miners to Bucharest as part of plans to consolidate their own power.

Mr Cosma appears increasingly willing to talk if his demands are not met. It remains to be seen whether those involved in the incidents of 1990 and 1991 now feel confident enough to ignore him.

Control over fixed assets investment seen as crucial

Beijing aims for 10.5% inflation rate

By Lynne O'Donnell in Beijing

CHINA could slow inflation to an annual 10.5 per cent, according to a senior government analyst.

Mr Lai Guangxian, director of the economic forecasting department of Beijing's state information centre, said the rate depended on the effectiveness of the government's current macro-economic control measures.

Mr Lai, quoted in Sunday's official Business Weekly newspaper, said China's total annual money supply could be kept to about Yn150bn ($26.31bn).

Money supply in the first half, according to government figures, was Yn52.8bn and growing at an annual rate of 50 per cent.

Control of fixed assets investment – which grew by an annual rate of 61 per cent in the first half – was especially important, Mr Lai said.

"The slowdown in inflation could be achieved by controlling the country's total investment in fixed assets to a growth rate of about 28 per cent and limiting total retail sales growth to about 18 per cent for the year," the Business Weekly said. First-half retail sales increased 21.6 per cent on the same period last year.

Figures released last month by the state statistical bureau show China's economy grew in the first half by an annual rate of 13.9 per cent, more than a full percentage point higher than the 12.8 per cent recorded for 1992.

Inflation was shown to be running at a year-on-year 14 per cent nationally, but 21.6 per cent in 35 big cities.

Investment in fixed assets shot up to Yn354.2bn, with investment by the state sector growing by 70.7 per cent, to Yn219bn.

In June the government began implementing austerity measures aimed at cooling the economy, which has been compared by both local and international observers to a runaway train.

The measures have so far included directives to specialised banks to recall all high-risk loans, stop lending to non-banking financial institutions and stop running commercial companies.

Bank lending and deposit rates have been increased with the aim of boosting faith in banks and to stabilise domestic prices.

The official People's Daily said Beijing's call to strengthen control over economic growth rates had yielded "preliminary results in certain areas". But in a separate, strongly worded commentary, the Communist party said local officials must obey new policies and stop trying to shield their regions from the go-slow order.

Dark motives seen in Hanoi's power policy

By Iain Simpson, recently in Hanoi

FOREIGN investors in Vietnam and their domestic counterparts are becoming increasingly frustrated with the country's power supply.

In Saigon, the former South Vietnamese capital and the focus of foreign investment in the country, frequent brownouts mean factories and many offices have invested in expensive generators to keep equipment running.

As the Vietnamese economy continues to grow, the demand for electricity outstrips the ability of the system to provide it. Officials in the ministry of energy say demand in the south is at least 20 per cent above capacity, and the gap is likely to widen over the next few years.

Economic development is concentrated in the south of the country, while most of the country's electric power is generated in the north. Some foreign observers suggest this is aimed at keeping the south in thrall to the north.

A dam and hydroelectric plant in northern Vietnam has worsened the imbalance. The dam, which was started as a Soviet aid project and which will produce 8.5bn kilowatt hours a year when the final turbine is switched on later this year, will more than meet demand for power in the north. Yet Hanoi has plans for a second dam and power plant up river, at a cost of up to $4bn (£2.6bn).

The government is expected to apply for a project loan from either the World Bank or the Asian Development Bank. However, as this type of centralised project has fallen out of favour with the institutions, Hanoi may have to look elsewhere to raise the money.

The government is already committed to finding at least $550m for the construction of a 1,500km transmission cable from northern Vietnam to the south. It is claimed this will balance supply in the two halves of the country, and cut the level of power lost in transmission.

However, the line will not be completed for at least another year.

The energy ministry has a long-term development plan to increase generating capacity to 25bn kilowatt hours by the year 2005, from 10bn kilowatt hours this year.

According to Mr Nguyen Tien Hai, a director at the ministry, growth levels can cope with the increased demand in the short term, but after 1996 the gap between supply and demand could widen rapidly as rural industries and small businesses are set up.

Rescuers carry a body from a Kagoshima hospital which was engulfed by a landslide following torrential rain sweeping southern Japan. The death toll in floods rose to 41 yesterday and an estimated 22 people were missing, a police spokesman said, Reuter reports. Three rivers running through the city, the provincial capital of Kagoshima prefecture on Japan's main southern island of Kyushu, have burst their banks since the downpour started on Thursday. In some places flood waters reached waist level, washing away cars and leaving thick layers of mud in homes and shops.

NEWS IN BRIEF

Death sentences for 34 Algerians

AN Algiers court condemned 34 Moslem fundamentalists to death at the weekend, the government newspaper El Moudjahid reported yesterday, Reuter reports from Algiers.

Five of the condemned were among 22 men in a special court facing charges which included setting up an armed group, conspiracy against the state, murder, kidnapping and sabotage.

A further 29 men being hunted were sentenced to death in their absence, the newspaper said.

Kuwait workers on rampage

Foreign workers at a Kuwait refinery went on a rampage during a strike over poor conditions, overturning vehicles and smashing their residence, Reuter reports from Kuwait.

The disturbance – unusual among Kuwait's foreign labour community – occurred on Saturday during a one-day stoppage by about 2,000 maintenance workers at Kuwait's Mina al-Abdullah refinery.

Their nationalities were not given but most maintenance crews are staffed by Filipinos, Indians, Bangladeshis and Sri Lankans.

The strikers complained of inappropriate living conditions, a lack of suitable food and said annual holidays were not long enough for them to attend to family business back home, the Al-Watan newspaper said.

Blast kills Hindu militants

A powerful bomb killed at least three Hindu militants in India's southern Tamil Nadu state yesterday, their group's spokesman said, Reuter reports from Madras.

He said the explosion ripped through the headquarters of the right-wing Hindu Rashtriya Swayam Sevak Sangh (National Volunteers Corps) in Madras, capital of Tamil Nadu. Several people were injured.

Singapore poll candidate

Mr Joshua Jeyaretnam, an opposition leader in Singapore, is to contest the republic's first presidential election, due to be held at the end of this month, writes Kieran Cooke in Kuala Lumpur.

Mr Jeyaretnam, a lawyer who once held senior positions in Singapore's judiciary, became Singapore's first opposition MP in 1981.

An outspoken critic of Mr Lee Kuan Yew, Singapore's former prime minister, and the governing People's Action party, Mr Jeyaretnam has frequently been in trouble with the Singapore authorities.

In 1986 he was convicted for improper use of his Workers party funds and barred from contesting elections for five years. He was also struck off the roll of lawyers.

Under Singapore's new presidential rules a three-member presidential election committee decides on the eligibility of candidates to contest an election. Two other leading Singapore figures have put themselves forward as candidates – Mr Ong Teng Cheong, now deputy prime minister, and Mr Chua Kim Yeow, a former accountant general.

Chinese floods hit homes

Floods in the south China province of Hunan have stranded 527,000 people and destroyed 163,000 homes, according to the Xinhua News Agency, Reuter reports from Beijing.

It said the flooding Lishui and Yuanjiang rivers, swollen by torrential rain which fell at the end of July, also damaged crops on about 8m hectares of farmland.

Osman to be freed later this month

MR Lorrain Osman, former chairman of Bumiputra Malaysia Finance, will be freed later this month, almost eight years after he was arrested on charges of fraud in connection with the collapsed Carrian group, writes Simon Davies in Hong Kong.

The remaining 15 criminal charges against Mr Osman were dropped on Friday, leaving the Malaysian banker to complete a one-year sentence handed out in June. His jail term has been reduced by good behaviour and time already spent in prison. Carrian, a Hong Kong listed property and shipping group, collapsed in 1983 with bad debts of more than US$1bn.

The subsequent legal battle has been the longest and most costly in Hong Kong's history.

Carrian's managing director, Mr George Tan, was acquitted in 1988 of conspiracy to defraud shareholders in a decision which a leading lawyer described as "bizarre and irrational". Mr Tan will face further bribery charges next month.

In June Mr Osman pleaded guilty to charges of conspiring to defraud Bumiputra Malaysia Finance by authorising US$292m of loans to a company controlled by Mr Tan. The company had no assets and paid-up capital of only HK$2.

The case has cost Hong Kong taxpayers more than HK$100m ($13m).

Bhutto's brother in power bid

MR Murtaza Bhutto, the exiled brother of Ms Benazir Bhutto, Pakistan's opposition leader, plans to return to contest the October elections, raising speculation of a power struggle in the Bhutto family, writes Farhan Bokhari in Islamabad.

The polls were called after Prime Minister Nawaz Sharif and President Ghulam Ishaq Khan stepped down last month.

The Bhutto family has led the Pakistan People's party, the most important opposition force, for almost 25 years. Mrs Nusrat Bhutto, the family's matriarch and Ms Bhutto's mother, said at the weekend that Mr Bhutto would end his 16-year exile in Damascus.

He fled Pakistan in 1977 when an army coup toppled his father, former prime minister Zulfikar Ali Bhutto, who was later executed following a conviction for conspiring to murder a political opponent.

Babangida turns to his security chiefs for help

By Paul Adams in Lagos

PRESIDENT Ibrahim Babangida of Nigeria will consult the senior officers in the armed forces and police tomorrow before taking his next step over a proposed interim government for the country.

Civilians and junior ranks in the armed forces oppose the use of the interim government to extend military rule.

Mr Moshood Abiola, the unofficial winner of a cancelled poll held in June, is in the US lobbying for sanctions to force the government to install him as head of state. There seems no prospect of a post for Mr Abiola if the interim government takes effect.

Germany, which is the largest exporter to Nigeria, last week cancelled a visit by MPs and announced it would have to review bilateral relations with Nigeria until the democratic process was put back on track.

Discussion by the ruling military council of the interim government proposals ended inconclusively on Friday and will restart on Thursday after Mr Babangida has seen security force leaders, who hold the key to Nigeria's political future.

Pressure is coming from the lower ranks of the armed forces to withdraw from direct military involvement in government. Many officers believe their reputation has suffered since the government's refusal to install a democratically elected civilian president on August 27, leaving a six-year transition programme incomplete and the country divided by the suppression of Mr Abiola's victory.

A meeting of middle and junior ranking officers in Lagos last week rejected a plan by the government which seemed to make the interim government an extension of military rule.

Even the proposal for a civilian-led interim government is being treated with hostility in Lagos and the south-west, where the Yoruba majority feels the north has dominated Nigeria, mostly through military regimes, for too long.

The Campaign for Democracy, a loose association of pressure groups, is organising a three-day stoppage aimed at "the passive dislocation of civil society".

Leaflets have been distributed telling people to stay away from work but not to resort to violent protest.

"We hope that this will build up momentum and force the government to back down over the annulment of the June elections," said Mr Olisa Agbakoba, one of the campaign's organisers, yesterday. Last month a week of civilian protest degenerated into looting and destruction, put down by the army with about 100 civilian deaths.

Status quo locks in effect of D-Mark instability

ONE WORD appeared repeatedly on the lips of both German and French politicians and central bankers last week: stability.

After last Tuesday's Franco-German summit meeting in Paris, French Economy Minister Edmond Alphandéry reaffirmed his government's commitment "to a monetary policy that emphasises price stability and the stability of the external value of our currency".

Mr Alphandéry's words will have been music to German ears. For stability has also been on the mind of German Finance Minister Theo Waigel. "I assume," he told a news conference the morning after the late-night decision of Europe's finance ministers to widen ERM bands, "that in a relatively short time exchange rates will stabilise not very far from where they were in the existing bands".

The reason for this German desire for currency stability was outlined over the weekend by Bundesbank President Helmut Schlesinger in an interview with the Frankfurter Allgemeine Zeitung. In comments directed at hard-pressed German industry, he said he did not expect a clear revaluation of the D-Mark against other currencies in the ERM, adding that other ERM members were currently more interested in stabilising their currencies than in cutting their interest rates sharply and triggering devaluations.

For the French government, a period of calm, after weeks of foreign currency storms, also has its attractions. Keeping the French franc close to its old ERM bands against the D-Mark is the best way for Prime Minister Edouard Balladur to fight off the charge that he has sanctioned an implicit franc devaluation.

But for the French economy, preserving the current D-Mark-franc link no longer seems consistent with either domestic or external stability. The franc fort policy of fixing the franc to the D-Mark, far from preserving "the stability of the external value" of the franc, has bequeathed an effective 6 per cent appreciation against a trade-weighted basket of European currencies, as the left-hand chart shows.

The reason is that the French franc has been pegged to an appreciating currency. Until last September's crisis, the ERM successfully suppressed the D-Mark appreciation which German unification demanded. Instead, the real appreciation of the German currency, necessary to reorientate west German production from exports to east Germany and allow the government to finance its budget deficit, occurred through a rise in German inflation relative to its European partners.

The result was a steady decline in the European price competitiveness of German industry since 1991, as the right-hand chart shows. France, by contrast, continued to amass competitiveness gains because of its relatively low producer price inflation rate.

Since September the departure of sterling and the Italian lira from the system and the devaluations of the punt, peseta and escudo have further undermined German competitiveness, this time through a nominal D-Mark appreciation. But France, by sticking to its old ERM parity, has been forced to accept both this nominal exchange rate appreciation and the Bundesbank's high interest rates.

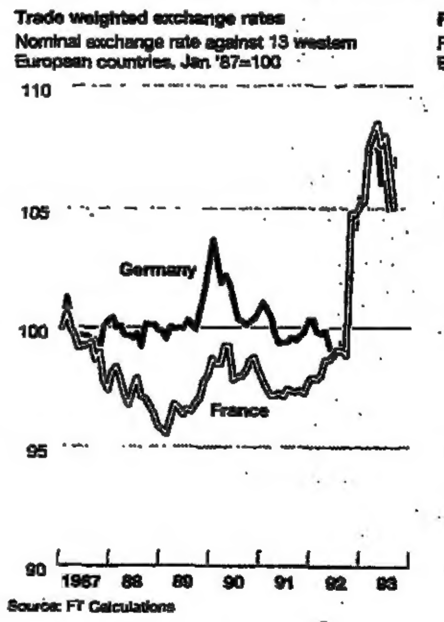
The result is a deepening and unnecessary French recession. Maintaining the franc fort policy, far from preserving domestic stability, has thus progressively deepened France's domestic deflation. The longer the government refuses to cut its short-term interest rates in an attempt to preserve this franc appreciation, the deeper the damage to industry and the greater the risk of an unnecessarily large franc depreciation and inflationary backlash when the policy collapses.

For France, a sizeable cut in interest rates, accompanied by some form of franc depreciation, seems the only route back to stability. German industrialists have good reason to hope that such a franc depreciation does not occur over the coming months. But if the franc does fall, they should address their complaints to Bonn and Frankfurt, not Paris.

Edward Balls

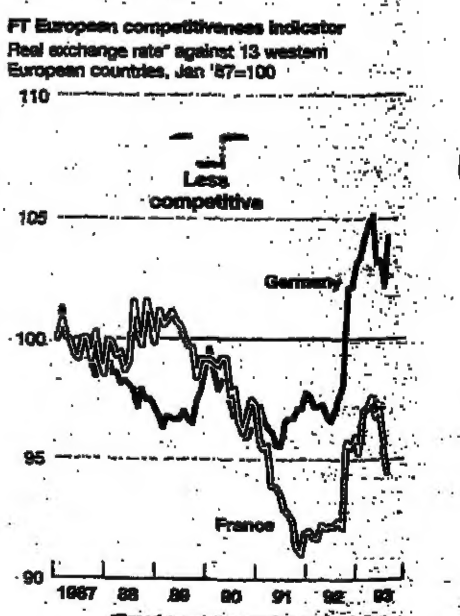
Tracking the Franco-German monetary relationship

Trade weighted exchange rates
Nominal exchange rate against 13 western European countries, Jan '87=100



Source: FT Calculations

FT European competitiveness indicator
Real exchange rate* against 13 western European countries, Jan '87=100



*Based on relative producer price inflation

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.2	99.4	83.7
1987	105.6	100.7	103.8	98.7	74.9
1988	109.9	103.2	106.9	99.1	71.4
1989	115.2	108.5	110.0	101.1	75.0
1990	121.5	113.6	113.6	104.0	71.8
1991	126.6	116.3	117.3	107.3	71.3
1992	130.4	117.7	120.2	105.8	70.6
3rd qtr.1992	3.1	1.6	2.3	-1.1	68.1
4th qtr.1992	3.0	1.6	2.2	-2.0	72.2
1st qtr.1993	3.2	2.0	2.8	-1.7	74.3
2nd qtr.1993	3.2	1.9	2.5	-1.5	72.9
August 1992	3.2	1.6	2.6	-1.4	67.7
September	3.0	1.6	2.5	-0.5	68.1
October	3.2	1.7	2.5	-1.6	70.3
November	3.0	1.4	1.7	-2.4	73.1
December	2.9	1.6	2.5	-2.0	73.3
January 1993	3.3	2.0	3.4	-2.1	74.4
February	3.2	2.0	2.5	-1.6	74.6
March	3.1	2.0	2.5	-1.3	74.0
April	3.2	2.4	2.6	-1.6	72.5
May	3.2	2.0	2.5	-1.4	72.6
June	3.0	1.4	2.5	-1.6	73.4
July					

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.6	95.3	101.4	103.3	119.2
1987	101.2	92.5	103.1	100.6	123.3
1988	102.2	92.3	107.8	96.2	130.0
1989	104.9	94.2	114.0	98.1	122.1
1990	108.2	95.7	120.1	98.2	109.2
1991	111.8	96.8	124.2	101.8	116.2
1992	113.9	95.8	125.6	111.1	116.7
3rd qtr.1992	2.0	-0.9	0.7	8.9	117.1
4th qtr.1992	0.9	-1.2	-0.1	10.4	122.1
1st qtr.1993	1.2	-1.1	-0.5	7.0	126.1
2nd qtr.1993	1.0				135.5
August 1992	1.8	-0.9	-1.8	11.4	115.4
September	2.2	-0.9	1.1	6.7	119.1
October	1.2	-1.1	1.2	10.5	121.8
November	0.6	-1.1	1.2	10.4	122.4
December	0.9	-1.2	-1.0	10.3	122.2
January 1993	1.0	-1.1	-3.6	10.1	122.0
February	1.3	-1.0	1.3	7.3	126.5
March	1.2	-1.2	1.0	3.6	129.4
April	0.9	-1.3	2.0	5.4	132.6
May	1.1	-1.5	2.1		134.7
June	1.0				139.2
July	1.7				

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.8	103.7	107.0
1987	100.1	96.1	108.0	106.9	110.5
1988	101.4	96.2	113.0	106.7	109.9
1989	104.2	99.3	117.3	107.7	108.4
1990	107.0	101.0	123.8	110.2	110.3
1991	110.7	103.4	131.8	114.7	108.4
1992	115.1	104.8		121.2	110.5
3rd qtr.1992	3.5	1.0	n.a.	6.1	111.2
4th qtr.1992	3.7	0.5	n.a.	8.2	113.3
1st qtr.1993	4.3	0.5	n.a.	9.7	113.3
2nd qtr.1993	4.2	-0.2	n.a.		111.8
August 1992	3.5	1.1		5.2	111.1
September	3.6	0.8		4.3	112.0
October	3.7	0.5		7.8	113.7
November	3.7	0.5		10.3	112.4
December	3.7	0.5		6.6	113.6
January 1993	4.4	0.6		12.1	113.4
February	4.2	0.5		11.2	113.4
March	4.2	0.3		5.9	113.2
April	4.3	0.1		7.6	113.1
May	4.2	-0.3			111.7
June	4.1	-0.4			110.6
July	4.3				

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	104.5	101.5	102.9
1987	105.9	97.8	107.8	103.0	104.1
1988	108.8	102.8	111.1	104.3	101.8
1989	112.6	108.4	115.4	105.5	99.8
1990	116.5	107.1	120.6	110.0	102.9
1991	120.2	105.8	125.8	114.3	101.3
1992	123.0	104.0	130.3		104.7
3rd qtr.1992	2.7	-0.9	n.a.	2.6	105.0
4th qtr.1992	2.2	-1.5	n.a.		108.2
1st qtr.1993	2.1	-2.3	n.a.		109.1
2nd qtr.1993	2.0		n.a.		109.3
August 1992	2.7	n.a.	–	n.a.	104.6
September	2.6	n.a.	3.5	n.a.	106.2
October	2.4	n.a.	–	n.a.	108.8
November	2.1	n.a.	–	n.a.	108.0
December	2.0	n.a.	3.6	n.a.	107.9
January 1993	2.1	n.a.	–	n.a.	108.5
February	2.1	n.a.	–	n.a.	109.6
March	2.2	n.a.	3.4	n.a.	109.2
April	2.1	n.a.	–	n.a.	110.0
May	2.0	n.a.	–	n.a.	109.3
June	1.9	n.a.	2.6	n.a.	108.7
July					

ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	103.6
1987	111.0	103.2	111.8	105.5	104.9
1988	116.5	106.8	118.4	109.7	103.8
1989	124.2	113.1	125.6	112.3	107.4
1990	131.8	117.8	134.7	118.9	108.5
1991	140.3	121.7	147.9	131.3	107.7
1992	147.7	124.0	155.9	136.6	102.4
3rd qtr.1992	5.2	1.9	3.7	2.7	104.4
4th qtr.1992	4.8	2.2	2.9	6.5	93.0
1st qtr.1993	4.3	3.1	2.8		85.9
2nd qtr.1993	4.1				86.9
August 1992	5.2	1.9	3.5	n.a.	108.5
September	5.1	1.9	3.7	n.a.	100.4
October	4.9	2.0	4.1	n.a.	92.8
November	4.8	2.2	2.1	n.a.	94.7
December	4.6	2.5	2.4	n.a.	91.4
January 1993	4.2	2.8	2.3	n.a.	88.0
February	4.4	2.9	2.8	n.a.	86.0
March	4.2	3.5	2.7	n.a.	83.8
April	4.2	3.7	2.6	n.a.	84.3
May	4.0		2.8	n.a.	88.0
June	4.2			n.a.	88.3
July	4.4				

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	104.3	107.7	104.5	94.2
1987	107.7	108.3	116.3	105.9	94.2
1988	113.0	113.2	126.2	108.9	101.6
1989	121.8	119.0	137.2	113.6	100.9
1990	133.3	126.0	150.1	123.2	102.2
1991	141.2	133.0	162.4	130.3	105.8
1992	146.4	136.0	173.1	132.2	102.8
3rd qtr.1992	3.6	3.5	6.2	2.0	105.7
4th qtr.1992	3.0	3.4	5.7	-0.6	92.9
1st qtr.1993	1.8	3.7	4.8	-3.0	92.7
2nd qtr.1993	1.8	3.9			95.2
1992 August	3.6	3.4	6.5	1.8	107.0
September	3.6	3.4	5.7	1.1	102.3
October	3.6	3.3	6.3	0.1	93.8
November	3.0	3.3	5.8	-0.4	91.3
December	2.6	3.5	5.4	-1.4	93.4
1993 January	1.7	3.6	5.0	-2.9	94.9
February	1.8	3.7	5.1	-2.7	90.4
March	1.9	3.6	4.2	-3.1	92.4
April	1.3	3.8	5.2	-2.6	95.5
May	1.3	4.0	4.6	-5.3	95.5
June	1.2	4.0			94.9
July					

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. **Consumer prices:** not seasonally adjusted. **Producer prices:** not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. **Earnings index:** not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). **Unit labour costs:** seasonally adjusted, measured in domestic currencies, Germany – mining and manufacturing, other countries – manufacturing industry. **Real exchange rate:** JP Morgan real effective exchange rate index versus 15 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

EC maternity benefits may cost UK £60m

By David Owen

BRITISH employers could face extra costs of up to £60m a year following a government decision not to offer state aid to offset the costs of bringing UK maternity benefits into line with EC requirements.

Under proposals likely to be unveiled this week, domestic employers are to be asked to pay the difference between the cost of existing maternity benefit arrangements and that of the new system which must be in place by next October.

The decision reflects the government's determination to curb its £80bn a year social security budget as part of the onslaught on public spending.

This was further underlined yesterday when prime minister John Major used a rare appearance as a guest newspaper columnist, in the *News of the World*, to emphasise that social security spending was rising too fast.

A consultation document to be published this week by the Department of Social Security is expected to set out two options for implementing the EC's maternity directive, which was agreed last year.

Both options are thought to incorporate a £4.55 a week increase to £52.50 in the level of maternity benefit and to raise the number of women eligible to receive an initial six weeks' maternity leave on 90 per cent of full pay.

At present in the UK, women are entitled to this six-week period on close to full pay only after two years' continuous employment. The new proposals are expected to cut this qualification period to either six or nine months.

The decision to load the additional cost of the EC requirements on to employers may prove embarrassing to the government, which has argued that such costs should be kept to a minimum to protect competitiveness.

But some left-leaning ministers will be secretly delighted that higher payments for working mothers have been sanctioned. They see more generous maternity and childcare entitlements as a potential Conservative vote-winner capable of yielding substantial ballot-box dividends at a relatively low cost.

In his *News of the World* column, Mr Major said the government had to ensure both that the "really needy" got all the help they deserved and that taxpayers' money was not being given to "people who don't need it."

The government must "plan now for the social security system we can afford in the future," he said, warning this would involve "some tough decisions".

Downing Street interpreted the prime minister's words as simply endorsing a position staked out by Mr Peter Lilley, the social security secretary.

But Mr Donald Dewar, the opposition Labour party's social security spokesman, said Mr Major's talk of "cuts and means testing" would cause worry and distress. It would frighten people coping with disability, ill-health and unemployment and looked "unpleasantly like a further lurch to the right".

SOLDIERS of the British Army's 5 Airborne Brigade check equipment at the weekend ahead of a four-day parachute exercise in western England involving 4,000 troops. UK servicemen were joined by 600 members of the US Army's 325th Regiment Airborne Infantry who flew to the "battle zone" on Salisbury Plain in Wiltshire from Aviano in Italy. The initial stages of the exercise, nicknamed Roaring Lion, were designed to simulate the evacuation of British nationals from an overseas country which was on the verge of war.

Picture by Ashley Ashwood

Lloyd's faces threat from rebel Names

By Richard Lapper

LLOYD'S of London faces further possible controversy as it prepares to unveil the results of a ballot of its more than 20,000 underwriting members or Names tomorrow.

Victory in the vote for rebel loss-making Names could shatter confidence at the insurance market and derail plans to to introduce new incorporated investors.

Mr David Rowland, chairman of Lloyd's, conceded last month that if a motion supportive of both him and Mr Peter Middleton, chief executive, were defeated he would seek a formal vote of confidence from members, triggering a new battle between Lloyd's and disgruntled Names, whose losses over the last five years amount to more than £5.5bn.

The rebels are demanding that existing members be given the right to veto new capital raising plans.

They also insist that new investors help pay the losses of those most badly hit by losses by contributing a portion of future profits.

Nynex and BT sign cable deal

By Andrew Adonis

NYNEX, the US-owned cable operator, has signed an interconnection deal with British Telecommunications, thought to be the first by one of the the "big four" companies which dominate the UK's cable TV and telephone industry.

The agreement will give Nynex, which has 20 franchises across the country, 50 per cent of the gross call revenues generated by its subscribers, against 25 per cent under its existing agreement with Mercury, according to a report in the FT's Telecom Markets newsletter.

Until now, the four main cable operators – Nynex, Southwestern Bell, Telewest and BCE of Canada – have relied exclusively on Mercury to carry long-distance and international calls originating from their local networks.

The deal follows a more competitive strategy by BT, whose prices were invariably higher than Mercury's in the past.

Cable operators, which have recently been reporting take-up rates of around 30 per cent for telephone lines in areas where networks are under construction, are increasingly switching their traffic on to the public network rather than handing it over directly to Mercury. Switching enables them to choose more freely between long-distance operators, and to keep a higher proportion of their subscriber income.

The advantages will be greater still when new operators enter the market – such as Energis, the telecoms arm of National Grid, which is currently building a long-distance network and expects to be offering a service from next Easter.

Nynex and other cable operators are likely to operate least-cost routing systems, which allows calls to be sent along the network of the lowest-cost operator, enabling them to take advantage of short-term movements in prices between rival operators.

Hardier companies detected by Bank

By James Blitz, Economics Staff

BRITAIN'S industrial and commercial companies performed more robustly in the recent recession than they did in the economic downturn of the the early 1980s, with company profitability and investment remaining at comparatively high levels, the Bank of England says.

A Bank report, which will be published tomorrow in the Bank's Quarterly Bulletin, says that UK firms took earlier and more active steps to adjust to the recent recession than they did a decade ago, and therefore retained a large proportion of the gains in profitability made in the 1980s.

The return on capital in the non-North Sea sector was some 3 percentage points higher in the recent recession than it was in the previous one, according to the Bank of England.

Business investment as a share of Gross Domestic Product was also nearly 3 percentage points higher in the early 1990s than it was in the early 1980s.

The report says, however, that British companies entered the recent recession with a much higher level of indebtedness than they had in the previous downturn.

Their borrowing requirement averaged 7.4 per cent of GDP in the 5 years to 1992, compared to 2.2 per cent in the 5 years to 1982 – and the effects of large financial deficits and borrowing requirements may continue to affect company behaviour for some time.

Britain in brief

Rail sell-off could force 15% fare rise

Rail fares could rise by as much as 15 per cent next year if the government presses ahead with existing plans to privatise British Rail, said the Central Transport Consultative Committee, the passengers' watchdog.

British Rail has warned the Department of Transport that splitting the rail network into 25 regional operations in preparation for their eventual sell-off would create extra costs, prompting fare increases of up to 10 per cent.

But Mr Michael Patterson, secretary of the CTCC, said that these extra costs were likely to be "on top of any fare increase that BR might propose for its own purposes".

Retailers go international

UK retailers are becoming increasingly international, and dominated first-time expansion in north-western Europe in 1992, according to research by Management Horizons, the retail research group.

UK retailers, including Tesco, which acquired the French supermarket chain Catteau; Marks and Spencer, which opened franchises in Budapest; Iceland, which formed a joint venture with French group Au Gel; and Sears, which bought the Dutch mail order operator Ter Meulen Post, accounted for 25 per cent of deals where retailers were expanding into a north-western European market for the first time. France, the Netherlands and Switzerland each accounted for less than 15 per cent.

Although 56 per cent of UK investment went into north-western Europe, UK retailers also expanded into southern and eastern Europe.

Coal licence deadline ends

A British Coal deadline for private sector companies to apply for mining licences at five redundant pits ends today with hopes high that bids will be made for all of them.

The mines are among 19 pits no longer wanted by British Coal as a result of the decline in demand for coal. They form the second tranche to be offered for licence. Among the first tranche, comprising four pits, there was only one bid to continue mining.

Bus shake-up criticised

London First has added its voice to criticism of the government's proposals to deregulate London's buses to permit competent operators to run any service they like.

In a policy paper being circulated to relevant groups, the business-led initiative warns that deregulation could "undermine the effectiveness of London's transport system" if current plans are not modified. The body – set up last year to promote strategic thinking about London – says it is "critical" for the government to avoid a "rapid and wholesale" move to deregulation.

Private groups win contracts

Private contractors have won more than a third of council contracts for building cleaning, the Institute of Public Finance says today in a survey on compulsory competitive tendering.

The institute, the research arm of the Chartered Institute of Public Finance and Accountancy, found that 119 private companies had won contracts for building cleaning – more than for any other council service. They account for 35.8 per cent of all contracts awarded. However, the private sector has been most successful in winning small contracts, and its share of the total council market by value is lower, at 15 per cent.

Test of strength

Australia tightened its grip on the fifth test match by bowling England out for 251 in their second innings. England, who have already lost the series following three Australian victories and one match drawn, scored 276 in their first innings. Australia replied with 408. The tourists need just 120 runs to take the match.

THE WEEK AHEAD

ECONOMICS

Focus turns to UK recovery prospects

ATTENTION shifts to the UK this week where a rush of figures for June and July may confirm fears that the recovery is slowing.

The data includes a regional breakdown of the Confederation of British Industry's industrial trends inquiry, which sparked concerns that the pace of recovery was slackening when it was published at the end of last month.

None the less, on balance economists expect unemployment to have fallen again in July by a modest 5,000 and foresee growth in consumer lending.

Doubts about the strength of the recovery are reflected more in forecasts for manufacturing output. The median prediction is for a month-on-month fall of 0.6 per cent in June, although this would partly be a bounce back from the strong May figure, when output rose 1.8 per cent on the previous month.

This is also a busy week for US statistics. The first indication of third quarter consumer spending comes on Thursday with July retail sales figures. These are expected to show fairly soft activity with fairly buoyant general sales offset by lower car sales.

In France an increase in indirect taxes is expected to have raised the annual rate of inflation to about 2.2 per cent last month compared with 1.9 per cent in June. Although inflationary pressures in France are virtually dormant, some economists expect the markets to react badly to the higher figure since the comparison with German inflation will look less favourable to France.

UK manufacturing output

Source: Datastream

The rest of the week's economic releases and events follow. The figures in brackets are the median of economists forecasts and come from MMS International, a financial information company.

Today: UK, June consumer credit (up £170m); July producer prices index – input (up 0.2 per cent on month, up 7.9 per cent on year), output (up 0.2 per cent on month, up 4 per cent on year), output excluding food, drink and tobacco (up 2.6 per cent on year). US, Congress scheduled to begin August recess. Canada, May labour income (up 3 per cent on year); June new motor vehicle sales (down 2.9 per cent on month). Australia, June base money. Singapore, markets closed for holiday.

Tomorrow: UK, Bank of England releases quarterly bulletin. Sweden, May industrial production. US, Q2 productivity; Johnson Redbook. Canada, July housing starts (up 155,000). June department store sales. Japan, June machine orders excluding electricity and ships (up 0.5 per cent on month, down 13.4 per cent on year); Bank of Japan data.

Wednesday: UK, regional breakdown of Confederation of British Industry quarterly industrial trends survey;

John Major, prime minister, visits Sweden for two days. Germany, cabinet to approve detailed draft legislation for 1994. Canada, July leading indicator (up 0.4 per cent on month). Japan, July trade balance ($11bn surplus).

Thursday: UK, July unemployment (down 5,000); June average earnings (up 3.75 per cent), unit wages (down 4 per cent in three months to end of June), manufacturing output (down 0.6 per cent on month, up 3.6 per cent on year), industrial production (down 0.5 per cent on month). France, July CPI (up 0.2 per cent on month, up 2.2 per cent on year). Spain, July unemployment (16.5 per cent). US, July retail sales (up 0.2 per cent), excluding cars (up 0.4 per cent), producer prices index (up 0.1 per cent), excluding food and energy (up 0.2 per cent); initial claims week ended August 7 (341,000), state benefits week ended July 31; July Atlanta Fed Index; money supply data for week ended August 2; July M1(up $10.5bn), M2 up ($3.1bn), M3 (down $8.7bn). Australia, July employment (down 10,000), unemployment (10.9 per cent), June housing finance.

Friday: Spain, July CPI (up 0.5 per cent on month, up 10.7 per cent on year). Norway, July trade balance excluding ships (NKr5.3bn). US, July CPI (up 0.2 per cent), excluding food and energy (up 0.2 per cent); August Michigan sentiment; June business inventories (unchanged); July real earnings; car sales August 1-10 (6.6m), truck sales same period. Japan, July wholesale prices index (down 3.2 per cent on year, up 0.1 per cent on month).

During the week: Germany, June retail sales (down 2.4 per cent on year). July wholesale prices index (up 0.1 per cent on month). Spain, producer prices index (up 1.8 per cent on year). Australia, June M3, private sector credit, broad money. Singapore, June retail sales, Q2 GDP, Q2 net manufacturing inventories, Q2 unit labour costs, Q2 business expectations, Q2 industrial production index.

Emma Tucker

RESULTS DUE

THREE OF the largest composite insurers are set to be back in the black by an impressive margin when they report their results for the first half of 1993 this week, underlining the recovery in the sector after recent losses.

General Accident, which reports tomorrow, is expected to register pre-tax profits of between £90m to £120m (compared to a £21.2m loss at the half-way stage last year).

The advance at Commercial Union, which reports on Wednesday, is expected to be only slightly less strong with a rise to between £45m and £75m, compared to a loss of £18.1m the last time around.

Royal Insurance on Thursday is also expected to record profits of between £40m and £66m compared with a £79m loss last time. Falling losses from mortgage indemnity insurance and improving claims trends are the main reasons for the improvement, while companies are also benefiting from currency factors.

Meanwhile BOC's healthcare division is likely to come under the microscope when the company announces its nine-month figures tomorrow. Observers will want to know how much market share BOC has lost to generic competitors since its patent for the anaesthetic, Forane, expired in the US earlier this year. Pre-tax profits are expected to be between £262m and £275m, against £250.5m last time, largely helped by a £23m gain on currency movements.

Slow-growing Smith & Nephew, the bandages-to-Nivea healthcare company, has long been eclipsed by spectacular profits from drug companies. But Thursday's interim should show investors the benefits of a low profile in cost cutting times as the company reveals profits growth of as much as 20 per cent to £77m, helped by the fall in sterling.

Standard Chartered, which also reports on Thursday, is expected to post pre-tax profits of between £160m and £190m, against £64m in the first half of last year. Earnings per share are expected to rise to between 40p and 50p, against 4.2p, because of an expected fall in the tax charge.

When Unilever reports on its second quarter on Friday, the market will focus on what the consumer giant says about competitive pressure. The shares have been hit hard in recent months by worries over price wars in the US. However, the figures themselves are likely to be reassuring, with pre-tax profit of £545m expected for the quarter versus £511m last time.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Ensor Hldgs., Post House Hotel, Manchester, 10.30
BOARD MEETINGS:
Finals:
Mid Wynd Intl. Inv. Tst.
Westminster Health Care
Interims:
Allied Irish
CCS Grp.
French Property Tst.
Thailand Int. Fund
Vektra

■ TOMORROW
COMPANY MEETINGS:
Brown & Tawse, Imperial Street, Bromley-By-Bow, E., 12.00
Castings, Forte Posthouse Hotel, Chapel Lane, Great Barr, Birmingham, West Midlands, 3.30
Equity Consort Inv. Tst., Five Arrows House, St. Swithins Lane, E.C., 10.00
Evans of Leeds, Millshaw, Ring Road, Beeston, Leeds, 12.00
Mansfield Brewery, Civic Centre, Chesterfield Road South, Mansfield, 12.00
BOARD MEETINGS:
Finals:
Howard Hldgs.
Pifco Hldgs.
Rexmore
Interims:
BPP Hldgs.
Bensons Crisps
Edinburgh Oil & Gas
General Accident
Manchester Ship Canal
New Ireland Hldgs.
Saatchi & Saatchi

■ WEDNESDAY AUGUST 11
COMPANY MEETINGS:
Compco Hldgs., 33 Cork Street, W., 12.00
Europe Energy Grp., 5th Floor, 3 Gracechurch Street, E.C., 11.00
Martin Currie European Inv. Tst., Saltire Court, 20 Castle Terrace, Edinburgh, 12.00
Midlands Electricity, ICC, Broad Street, Birmingham, West Midlands, 11.00
Mountview Estates, Hotel Russell, Russell Square, W.C., 11.00
NORWEB, G-Mex Centre, Manchester, 10.30
BOARD MEETINGS:
Finals:
Armitage Brothers
English & Caledonian Inv.
Hambros Eurobond & Money
Waddington (J.)
Interims:
Commercial Union
Foreign & Colonial Inv.
Hambros Currency Fund
Holliday Chemical
Kleinwort Overseas Inv.
Metal Bulletin
Novo Nordisk
SKF Grp.
Thornton Pan Euro. Inv. Tst.
Ward Hldgs.

■ THURSDAY AUGUST 12
COMPANY MEETINGS:
Investment Co., Fairfax House, Fulwood Place, Gray's Inn, W.C., 12.00
Somic, The Clifton Arms Hotel, West Beach, Lytham, 12.00
Upton & Southern Hldgs., 20 Old Bailey, E.C., 11.00
Welpac, 20 Farringdon Street, E.C., 10.00
BOARD MEETINGS:
Finals:
Mosaic Invs.
Interims:
Ayrshire Metal
Blagden Inds.
C.S.C. Inv. Tst.
City Merchant High Yield
Foreign & Colonial Ent. Tst.
Johnson Grp. Cleaners
Micro Focus
Relyon
Royal Insurance
Sleepy Kids
Smith & Nephew
Standard Chartered
Takare
Thomson Corp.
Transatlantic Hldgs.

■ FRIDAY AUGUST 13
BOARD MEETINGS:
Interims:
Argos
Haden Maclellan Hldgs.
Malaya Grp.

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
ACT 3.25p
Amber Industrial 13p
Dobson Park Industries
GEI International 2.47p
Grindlays Euro. Gtd. Fltg. Rate '94 $245.42
Hapoalim Intl. Gtd. Fltg. Rate 2000 $214.86
Hardys & Hansons 3p
I & S Optimum Income Tst. 1.85p
Mazda Motor Fltg. Rate '96 Y92,041
Do. Fltg. Rate Nts. 1996 Y92,041
Mezzanine Cap. Income '01 4p
Norcros 3.5p
Norsk Hydro 8⅛% Nts. 1994 DKr348
Salvesen (Christian) 4.6p
VSEL Consortium 20p

■ TOMORROW
American Express $0.25
Anchor Intl. Fd. $0.39
Bass ADR $0.208
Bristol & West Fltg. Rate '94 £152.81
Henderson Highland Tst. 1.4p
Staveley Industries 6.2p
United Kingdom 9¾% Cv. '01 £4.875

■ WEDNESDAY AUGUST 11
Baggeridge Brick 0.75p
Caledonian Investments 10p
Castings 3.05p
Cohen (A. & Co.) 3.4p
Do. A Non-Vtg. 3.4p
Electra Inv. Tst. 3.45p
Mansfield Brewery 11p
Waddington (John) 4.3p

■ THURSDAY AUGUST 12
Bridgend 0.2p
Britannia Bldg. Soc. Fltg. Rate '96 £155.01
Denmanms Electrical 1.9p
Martin Currie European Inv. 0.29p
National Power 1.2p
National Westminster Var. Rate '08 $99.35
Ramco Oil Services 1p
Renold 1p
Southern Business 1.27p
Storehouse 2.5p
Sumitomo Bank Fin. Gtd. Fltg. Rate 2000 $87.85
Tanjong M$0.04
Tesco 4% Cv. Cap. Bds. '05 4.5p
Willoughby's Consolidated Pf. 0.5p
Do. Stk. 0.5p

■ FRIDAY AUGUST 13
Barr (A.G.) 1.75p
De La Rue 13.15p
E.Worcester Water 7.3% Rd. Pf. 92/94 0.88p
EMAP 5.825p
Hogg Robinson 4p
Polar 2p
Somic 1.5p
Sterling Industries 4.1p
Trinity Intl. 5% Cm. Pf. 1.75p

■ SATURDAY AUGUST 14
Carlton Comms. 7½% Cv. Sub.'07 £187.50
Readicut 2.81p
UMECO 1p

■ SUNDAY AUGUST 15
Abbott Laboratories $0.17
Fishguard & Rosslare Rail. 3½% Gtd. Pf. 1.225p
NOVA Corp. of Alberta C$0.06
Scottish Met. Prop. 10¼% 1st Mtg. Db. '16 £5.125
Sears 7¼% Un. Ln. 1992/97 £3.625
TSB Gilt Fund Ptg. Rd. Pf. 2.1p

CONFERENCES & EXHIBITIONS

SEPTEMBER 23
CREST: The proposed new settlement system for securities dealing in London
Speakers include Iain Saville, Head of CREST Unit, Bank of England. Brian Finnigan, Head of Settlement Operations, London Stock Exchange and speakers from the legal and IT firms most closely involved in CREST.
Details from: City & Financial Conferences Tel: (0276) 856966
Fax: (0276) 856566
LONDON

SEPTEMBER 27
Financial Reporting in the UK
The third FT meeting on the ASB's proposals for changing accounting standards in the UK. The conference will review the changes and their impact on reported company profits and balance sheets.
Enquiries: Financial Times
Tel: 071-814 9770
Fax: 071-873 3975/3969
LONDON

SEPTEMBER 28
How Much is your Business Really Worth?
An invaluable one-day seminar covering all aspects of valuing your company and its assets. Barrie Pearson, executive chairman of Livingstone Fisher plc is the speaker.
Enquiries: Director Conferences
Tel: 071 730 0022
LONDON

SEPTEMBER 29 & 30
Managing Business Regulation Effectively
A two-day conference for directors and senior managers, focussing on risks associated with various company compliance issues and how to manage them successfully. Chairman: The Rt. Hon. Lord Donaldson of Lymington, Chairman of the Financial Law Panel.
Contact: Patricia Sheldon, Gee Conferences
Tel: 071 538 5386 Fax: 071 538 8623
LONDON

SEPTEMBER 29 & 30
World Mobile Communications
The conference will look at mobile communications growth and technologies together with the challenge of developing a mass market personal communications system.
Enquiries: Financial Times
Tel. 071-814 9770
Fax: 071-873 3975/3969
LONDON

SEPT 29/30 & OCT 1
The Health of Nations 1993
Health of Nations: Demand, Cost & Efficiency on policy issues and impact on providers, suppliers and investors. James Watson, Rolf Krebs and Lady Cumberlege address this international conference sponsored by The Wall Street Journal Europe, medical, pharmaceutical, health care bodies, consultancies and banks.
Information: Cityforum Ltd
Tel: 0225-466744 Fax: 0225-442903
EDINBURGH

OCTOBER 4 - NOVEMBER 22
FT - City Course
The objective of the course is to provide an understanding of all aspects of the operations of the City and the factors that make it a pre-eminent financial and trading centre.
Enquiries: Financial Times
Tel: 071-814 9770
Fax: 071-873 3975/3969
LONDON

OCTOBER 5
"INTO CHINA"
A one-day conference on the practical approach to consumer marketing in China. Organised by Inchcape Marketing in association with the China-Britain Trade Group and the Department of Transport and Industry.
For all enquiries contact Lisa Bateman at World Conference Travel on
Tel: 071 799 1565
The May Fair Inter-Continental
Stratton Street, London W1
LONDON

OCTOBER 5-6
The Frieghtconnection Conference & Exhibition '93
A conference examining transport reforms and opportunities affecting road & railfreight movements in Europe. Covering combined transport, road charging, railfreight privitisation, channel tunnel developments. Speakers include Roger Freeman MP, Sir Alastair Morton, Graeme Dunlop. Contact: Iain Dale, The Waterfront Partnership.
Tel: 071 730 0430 Fax: 071 730 0460
MANCHESTER

OCTOBER 12 & 13
Retailing in the 90s
The aim of the meeting is to provide a high-level forum to review the opportunities and challenges facing the industry, consider partnerships and customer needs as well as performance and profitability.
Enquiries: Financial Times
Tel: 071-814 9770
Fax: 071-873 3975/3969
LONDON

OCTOBER 14
City of London Derivatives Conference
To be opened by Dr Henry Kaufman this Cityforum conference covers the markets, their regulation, maximising their benefits and controlling the risks. Central Banking and The Centre for the Study of Financial Innovation, Swiss Bank Corp, Arthur Andersen and Freshfields sponsor.
Information: Marc Lee, Cityforum Ltd
Tel: 0225-466744 Fax: 0225-442903
LONDON

OCTOBER 18 & 19
International Packaging and the Environment
This conference will look at legislation and the opportunities and problems facing the packaging industry and its customers. Co-operation in the packaging chain, recycling or incineration, and opportunities for new uses of resources will be examined.
Enquiries: Financial Times
Tel: 071-814 9770
Fax: 071-873 3975/3969
LONDON

INTERNATIONAL

SEPTEMBER 6-8
Textile Opportunities: Making it happen in the new Europe
Examines the extensive opportunities in Eastern Europe, giving you the opportunity to network, source, invest and identify new customers. Provides you with the latest information on recent developments and future prospects.
Contact: Sally Pearson, The Textile Inst.
Tel: +44 (0)61 834 8457
Fax: +44 (0)61 835 3087
FINLAND

SEPTEMBER 8 & 9
World Motor
Timed to coincide with the Frankfurt Motor Show, this biennial meeting will focus on challenges and opportunities facing European, US and Japanese motor manufacturers and examine how the industry is responding to the current economic climate.
Enquiries: Financial Times
Tel: 071-814 9770
Fax: 071-873 3975/3969
FRANKFURT

SEPTEMBER 15-18
VITRUM '93
South Pavilion, Milan, Italy. Machinery, equipment and installations for the manufacture of flat and blended glass, and glass products for industry. Reserved for trade only.
For further information contact:
Fiera Milano, Largo Domodossola 1, 20145 Milan, tel (39 2) 49971,
fax (39 2) 4997 7179 or, in the UK:
OTSA Ltd, tel 071 486 1951
MILAN

SEPTEMBER 15-19
EIMU 93,
International exhibition of office furniture.
Reserved for trade only.
For further information contact:
Fiera Milano, Largo Domodossola 1, 20145 Milan, tel (39 2) 49971,
fax (39 2) 4997 7179 or, in the UK:
OTSA Ltd, tel 071 486 1951
MILAN

SEPTEMBER 16
New Global Free Markets: Strategies & Policies
Keynote Speaker: Michael Kantor, US Trade Representative. Meet Trade Representatives and business leaders from over 100 countries. Learn about investment, joint venture, import-export opportunities in newly opened markets.
Tel: 202/797-0631,33,34,78 or
Fax: 202/797-0635
Contact: Mike True
WASHINGTON, D.C.

SEPTEMBER 16-19
MITECH 93
South Pavilion, Milan, Italy.
International exhibition of hardware, tools and do-it-yourself. Reserved for trade only.
For further information contact:
Fiera Milano, Largo Domodossola 1, 20145 Milan, tel (39 2) 49971,
fax (39 2) 4997 7179 or, in the UK:
OTSA Ltd, tel 071 486 1951
MILAN

SEPTEMBER 22-24
Intermedia Europe 1993
The third European Conference and Exhibition on Multimedia and CD-ROM, takes place in Wiesbaden, Germany.
For more information, please contact Reed Exhibition Companies, Düsseldorf
Tel:-+49-211-556281
Fax:-+49-211-556231
WIESBADEN

SEPTEMBER 27-29
MODA IN 93
South Pavilion, Milan, Italy.
International exhibition of textiles and accessories. Autumn/Winter '94/95 collections. Reserved for trade only.
For further information contact:
Fiera Milano, Largo Domodossola 1, 20145 Milan, tel (39 2) 49971,
fax (39 2) 4997 7179 or, in the UK:
OTSA Ltd, tel 071 486 1951
MILAN

SEPT 30 - OCT 4
SMAU 93
Milan, Italy.
International exhibition of information systems, telecommunications and office machinery and equipment. Reserved for trade only.
For further information contact:
Fiera Milano, Largo Domodossola 1, 20145 Milan, tel (39 2) 49971,
fax (39 2) 4997 7179 or, in the UK:
OTSA Ltd, tel 071 486 1951
MILAN

OCTOBER 14-15
EUROAID '93 Conference
European Community Aid for Development
Aid Programme opportunities for EC companies (40 billion ECU by 1999) in: Africa, Caribbean, Pacific, Asia, Latin America, Mediterranean, Central & Eastern Europe and CIS.
Contact: Société Générale de Développement S.A.
Tel: +32 2 512 4636 Fax: +32 2 512 4653
BRUSSELS

OCTOBER 14-18
IBTS 93
International exhibition of broadcasting and telecommunications equipment. Reserved for trade only.
For further information, contact:
Fiera Milano, Largo Domodossola 1, 20145 Milan, Tel: (39 2) 49971, Fax (39 2) 4997 7179 or, in the UK: OTSA Ltd, Tel: 071 486 1951.
MILAN

OCTOBER 15-18
64th MIPEL
International exhibition of leather goods, Spring/Summer 94 collections. Reserved for trade only.
For further information, contact:
Fiera Milano, Largo Domodossola 1, 20145 Milan. Tel: (39 2) 49971, Fax (39 2) 4997 7179 or, in the UK: OTSA Ltd, Tel: 071 486 1951.
MILAN

OCTOBER 16-18
22nd INTERSAN
Technical and sanitary orthopaedics, sanitary articles, surgical implements, hospital equipment, physioelectro-medical apparatus, corsets, sanitary articles for infants and aids for the disabled. For further information contact: Fiera Milano, Largo Domodossola 1, 20145 Milan
Tel: (39 2) 49971, Fax (39 2) 4997 7179 or, in the UK: OTSA Ltd, Tel: 071 486 1951.
MILAN

OCTOBER 18-24
53rd CICLO & MOTOCICLO
International exhibition of bicycles and motorcycles. Open to trade and the general public.
For further information, contact:
Fiera Milano, Largo Domodossola 1, 20145 Milan, Tel: (39 2) 49971, Fax (39 2) 4997 7179 or, in the UK: OTSA Ltd, Tel: 071 486 1951.
MILAN

OCTOBER 21-25
EXPO DETERGO 93
International exhibition of equipment, services, products and accessories for laundry, ironing and cleaning of textiles. Reserved for trade only. For further information, contact: Fiera Milano, Largo Domodossola 1, 20145 Milan
Tel: (39 2) 49971
Fax: (39 2) 4997 7179 or
in the UK: OTSA Ltd, tel: 071 486 1951
MILAN

OCTOBER 24-29
60th MIFED
International Multimedia Market for cinema and television. Reserved for trade only. For further information, contact: Fiera Milano, Largo Domodossola 1, 20145 Milan
Tel: (39 2) 49971
Fax: (39 2) 4997 7179 or
in the UK: OTSA Ltd, Tel: 071 486 1951
MILAN

NOVEMBER 29-30
"Sub-Saharan Oil & Minerals"
Ministerial level speakers from most Sub-Saharan countries. A major investment conference co-hosted by Europe Energy Environment, Gabonese Ministry of Mines & Energy, Sonangol & S.A. Chamber of Mines. For details contact: Elina Pothitos, EEE Ltd.
Tel 44-71-493 4918 Fax 44-71-355 1415
CAPE TOWN

DECEMBER 8-10
The Emerging Latin American Market
FORBES Magazine and Council of the Americas present The Emerging Latin American Market. Explore opportunities in private sector finance, investment and trade and meet with key government and business leaders. The conference is developed in participation with the U.S. Department of Commerce, The International Finance Corporation and The Beacon Council.
Contact: Joan Hall, CMC
Tel: 1-203 852-0500 Fax: 1-203 838-3710
USA

CONTRACTS & TENDERS

TERMS OF REFERENCE

The State Property Agency offers the state owned shares of DUNANTULI KOOLAJIPARI GÉPGYAR RÉSZVÉNYTARSASAG which was founded on July 1st 1992 as a result of the transformation of Dunàntùli Koolajipari Gépgyăr.

We inform you that the nominal capital of the company is 1.500.000.000 HUF of which 51%/state owned shares/ are offered for sale.

We expect the proposals of Hungarian and foreign investors who:

1. Make an offer for purchasing at least 10% of the nominal capital
2. Submit their offer in writing
3. Deposit 1% of the nominal value of the requested share package in order to demonstrate their serious intentions
4. Oblige themselves to secrecy regarding the obtained information.
5. Hand in their offer to the State Property Agency /1133 Budapest, Pozsonyi út 56./ before the below indicated deadline.

The applicant's firm offer has to be open for at least 90 days.

Formal requirements:

The proposals have to be sent to the below given address in 5 copies in Hungarian and in English or Russian without the name of the company in closed envelope indicating the original copy.

The deadline for handing in the proposal is:

15th October 1993

The condition of handing in the proposal is the purchase of the detailed tender which includes the terms of reference and the information package 10,000 HUF+VAT/ at the Information Office of the State Property Agency/ Budapest. Pozsonyi út 56./

The State property Agency reserves the right to declare a proposal unsuccessful.

For further information please contact:
Mr. István Rozsnyai
State Property Agency
Address: H-1133, Budapest, Pozsonyi út 56.
Phone: (36-1)-289-8600 1074

LEGAL NOTICES

MANAGEMENT

Lucy Kellaway reports on companies that have turned to outside managers for help with short-term problems

Troubleshooters for hire

"WHAT WILL we be doing five years from now? I can't imagine myself sitting in this production job indefinitely and there are only so many places on the board."

Jerry Kroon, the 46-year-old executive vice-president of manufacturing at Fokker Aircraft, was having a mid-life crisis. His confidante, Fokker's 42-year-old marketing manager, nodded gravely.

Suddenly Kroon had an idea: "Let's start a company called Fokker Driftwood, for all the people the company can't use in proper situations anymore. We will hire out our services for some of the time and we'll have a ball."

The conversation proceeded in jokey vein, yet it presented the perfect solution to a serious problem. There are large numbers of unemployed or dissatisfied executives with plenty of experience looking for new challenges. Equally, there are many companies that need extra help from time to time. Companies have slimmed down to such an extent that they increasingly find they have no management resources to deal with anything out of the ordinary.

The answer, as Kroon suggested, is to create a new market for "interim managers", employed for finite periods by companies when they are stretched or facing particular problems.

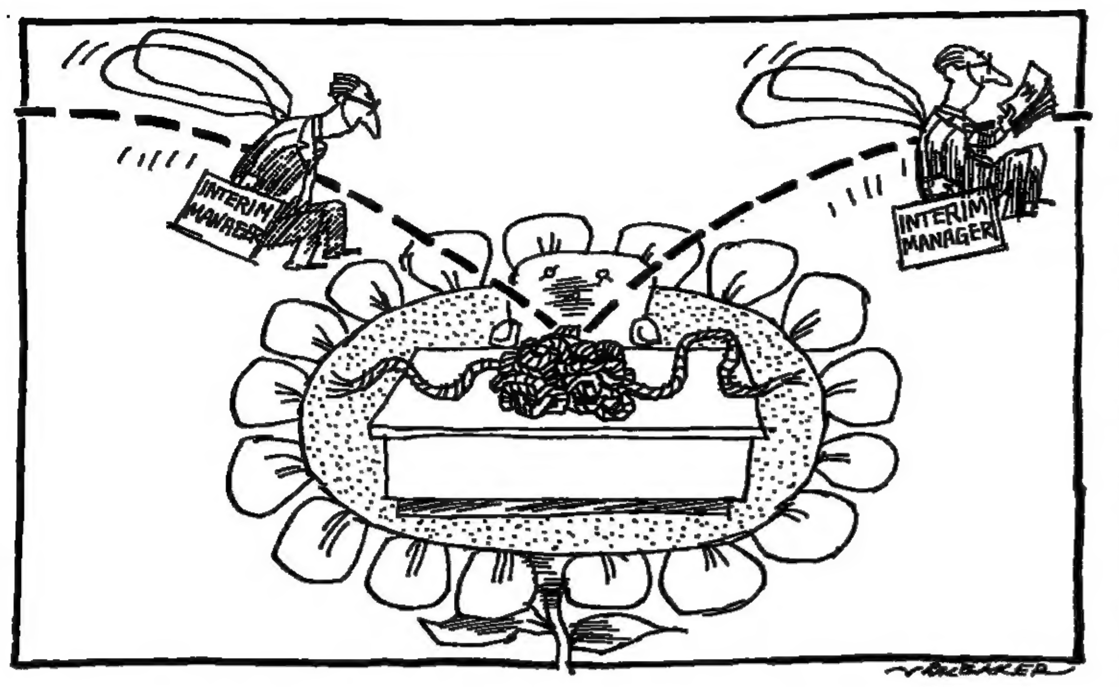
Some big companies are setting up such markets in house. At IBM some middle managers have been saved from early retirement and put into a special unit of troubleshooters that are sent out on short-term assignments. Smaller companies which cannot afford this luxury are increasingly looking to outsiders specialising in interim management.

"Interim management? Never heard of it," said Sir John Harvey-Jones, speaking at a recent conference on the subject organised by Learning Curve, the specialist training company. The remark caused much consternation among the established interim managers and their agents attending the session.

Interim management, as these practitioners went on to explain to Sir John, is half way between consultancy and recruitment. The interim manager is there not just to advise, but to implement: to "make it happen". But unlike permanent managers, their contribution is limited in time and during each assignment they remain independent.

According to Martin Wood, director in charge of interim management at PA Consulting, only one in eight large British companies has used interim management. Most of the others either have not heard of it, like Sir John, or have prejudices that prevent them from trying it.

One problem is the name. There is no agreement about what interim managers should be called. They are also known as flexi-executives, portfolio executives, handymen (after management guru Charles Handy, who advocates flexible working patterns), temporary executives, freelance managers, managers for hire and line consultants. In the US the terms "head renting" and "executive leasing" are also common.



Whatever their name, their task is a demanding one. Some companies doubt whether an outsider can get immediate results in an unfamiliar environment. It is much harder to be a good *interim* manager than simply a good manager. According to Wood, the ideal person is aged between 45 and 65, and has senior board experience. They need to be over-qualified for the work in hand, as they will probably come in late and be expected to sort things out at once.

"They must have the skills of a good consultant, and must be able to handle a team. They must not be politicians, but must wear their hearts on their sleeve," says Wood.

They also need to be of independent financial means, as they must never be dependent on any one employer, and they must not be searching for full-time employment.

For the right person the pay is good, anything between £300 and £1,000 a day, which is two to three times the going rate for the job in hand. There are no other employment costs, and interim managers can be dispensed with as soon as their services are no longer wanted.

The ideal person is between 45-65, has board experience and is overqualified for the work in hand

The skills of an interim manager improve with time. John Baker has been one for six years and has been involved in putting quality programmes into three companies. "I learned lessons from the first, applied them in the second, and in the third we put in BS5750 with remarkable ease, against a background of a bunch of guys saying: 'We can't possibly do it'."

Interim managers are to be found in an array of peculiar situations. They have been working at Leyland DAF keeping the company going while the receiver looked for buyers. At the long-delayed British Library, an interim manager, who has done project directorships for the Aga Kahn, has been brought in to hurry the project along.

Different companies use them for different reasons. Britannia Life hired an interim manager to help absorb the acquisition of a fellow financial services company. "We needed a thorough review, and needed it quickly," said Peter Burdon, managing director. He decided not to employ a consultant because "they are isolated and sell solutions. They also run up all sorts of extra costs. An interim manager is a fixed cost".

Within days the agency identified two candidates, and the one Britannia chose started work within a week. The experiment was a great success, and the manager is now on the permanent staff.

Birky Plastics, a subsidiary of the Japanese group Marubeni, brought in an interim manager while a less-experienced internal candidate was being groomed for the job. "We found we could involve the new man in numerous areas of business without threatening anyone as they knew he was only there for a short time," said Tony Wright, chief executive.

There is potential for friction between the interim manager and the existing staff, many of whom may suspect the outsider and begrudge his fatter pay-packet. Some interim executives think that these problems are best dealt with directly.

"I get the guys together and say: 'Well, I am taking this job on a contract basis and I am in charge from now on until you are told otherwise.' With a sufficiently menacing glare round the room, nothing more gets said about it," says Baker.

Others prefer the softly-softly route. "You cannot go in there with the assumption that you can plough through it," says Martin Rosenhead, who has done interim management work for large organisations including the police and the prisons. "You have got to persuade them that you are not threatening, because they have been used to being threatened, and are well trained to cope with it for a very long time."

Yet it can all go horribly wrong. According to John Hird, chairman of the Association of Temporary and Interim Executives, one company hired an interim computer specialist who caused untold damage by buying the wrong computer equipment; while another company took on a temporary finance director who turned out to be unqualified and incompetent.

One answer, says Hird, might be to go through a reliable agency rather than through an "old boy" network, as the agency, which has its reputation to defend, should have put more time into selecting the right people. However, this route may cost more: an agency usually takes 25 to 40 per cent of the salary. There are a growing number of agencies – such as P-E International, PA Consulting and Albermarle – which have several hundred interim managers on their books.

The notion of interim management will only catch on in a big way if a large enough pool of exceptional people can be found. Good managers are rare enough and, if good interim managers are still fewer and farther between, the market may continue to grow slowly, no matter how persuasive its logic.

Taking quality to heart

Tim Dickson reports a cultural change at Legal & General

For an idea so firmly established in the consultants' lexicon, total quality management has recently encountered a surprising amount of flak. More than one survey has revealed that many companies feel TQM has not delivered the results hoped for.

Legal & General, however, is not disenchanted.

Through its "quality development" programme, the large UK life and pensions provider says it has substantially improved its service administration, cut its cost base and boosted its standing with the independent financial advisers which sell its products.

Outside recognition came when Legal & General won the 1992 "Administering Total Quality" award of the Institute of Administrative Management. But the initiative had its roots much earlier during the boom in life and pensions products of the mid and late 1980s.

"From 1988 onwards our administrative systems were starting to creak," says Ray Wilkinson, manager in charge of the quality programme at L & G's administrative headquarters for high-volume individual products in Hove, Sussex. "With the onset of the recession it was also clear that, like our competitors, our expense base had become too fat."

Faced with a much tougher environment, L & G established a three-pronged strategy of which better service was one component. The other prongs were an overhaul of product design and improved investment performance.

L & G managers involved in the quality programme – which consumed 10,000 work days of training in 1992 alone – believe that efforts to make the continuous improvement philosophy acceptable throughout the company were important to its success.

A policy of open communication helped, including staff feedback sessions over coffee and regular assessments by staff of their managers. Managers cannot hide in their offices (the Hove headquarters has just three).

A questioning attitude is the heart of healthy TQM. After soliciting ideas from employees, L & G implemented 800 "projects for improvement" in 1992. Another 2,000 "opportunities for improvement" were raised. "These have to be followed through, or the manager has to justify why they are not being pursued," Wilkinson explains.

Quality improvement teams, a "quality council", and the development of a common quality language were all part of L & G's approach. "It is not so much the structure that's important," says Wilkinson. "It's the attitude and willingness of people to implement it." Regular feedback, a system of rewards and recognition, and competitions between sections are all part of the process.

To keep the focus on customers, L & G introduced customer advisory groups – panels of brokers and agents which meet at least every three months.

Ideas from these panels were fed last year into a document called the "Commitment to Customer Service" which represents the centrepiece of L & G's quality programme. It lists turnround times for 38 processes – such as policy quotation, underwriting and claims settlement – alongside the company's results for the latest and previous quarters.

A better yardstick of progress may be a survey conducted this year by City Research which showed that independent financial advisers rated L & G number 11 out of 23 life companies in terms of head office efficiency and prompt despatch of documents (against 16th a year ago). On existing policy service and prompt commission payment L & G improved from 18th to 10th and 16th to 9th respectively.

Robin Phipps, managing director of L & G's services division, says rival companies have been visiting Hove to learn from the L & G example. He is not concerned about unwittingly giving away secrets. "I don't think we can be copied that easily," he says. "You can mimic a product but not a culture change like ours."

CONSTRUCTION CONTRACTS

Improving access to the M11

The first contract to construct the eastern end of the Hackney Wick to M11 link road at Wanstead - known as contract 4 - has been awarded to **NORWEST HOLST** by the Department of Transport.

Contract 4 runs from Selsdon Road through to the River Roding covering a distance of 1.54 kilometres.

Work on the £31.5m contract is expected to start in September and will take four years.

Heathrow terminal

COUVES, the Tyneside-based firm of architects, has landed the B.A.A. (Britiah Airports Authority) Heathrow Express extension to Terminal 5 design contract, alongside Bovis and the Richard Rogers Partnership.

The extension is part of the £800m project scheduled for completion in the year 2002 and the firm is currently investigating possible options for the layout and its interfaces with the design for Terminal 5.

John Sisk busy

JOHN SISK & SON has won contracts in June/July totalling £25.5m. They include the refurbishment of the student union building at the South Bank University, refurbishment and conversion at the University of Westminster and refurbishment for the University of Wolverhampton.

Hotel projects

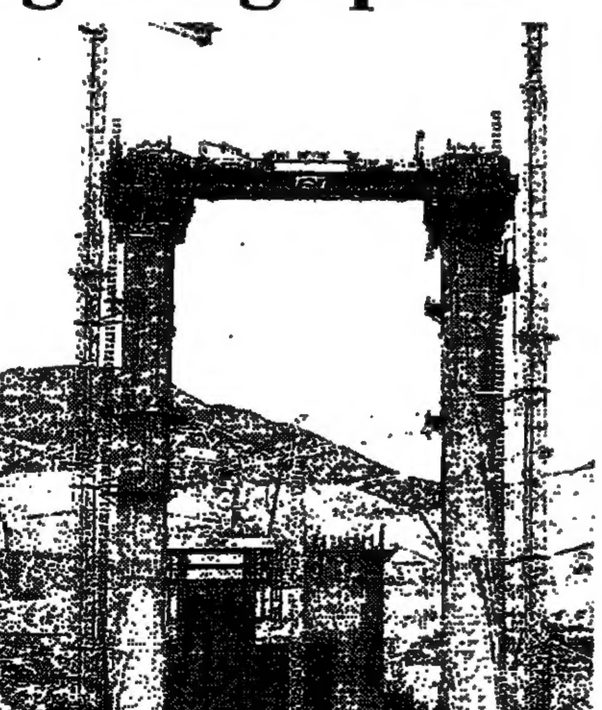
RB FARQUHAR has won contracts worth £1.4m to supply bedroom and bathroom modules for two luxury hotels. The company is supplying 128 bathroom modules for the new De Vere Grand Harbour Hotel in Southampton and 66 modules containing bedrooms, suites and stairwells for a Friendly Hotel being built in Loughborough.

Plant development

COURTAULDS ENGINEERING has been awarded a contract valued at approximately £3.5m by Borden (UK), part of Borden Inc, for the expansion and upgrading of its Peterlee, Co Durham plant.

Hong Kong bridge plan

The first of two giant concrete towers (*pictured right*), which will support the Tsing Ma Bridge in Hong Kong, has reached a height of 100 metres, eight weeks after construction began.



When the project is completed in mid-September the concrete tower, located on Tsing Yi, will be 190 metres – the same height as some of the modern 50-storey office buildings in Hong Kong's central district.

Work on the second 190-metre concrete tower, at the Ma Wan end of the bridge, is expected to begin in August and be completed in three months.

The towers are being built by a process known as slipforming, which accelerates the speed at which concrete can be poured. The forms - or shutters - which surround the concrete move steadily upwards.

Steel trusses weighing up to 185 tonnes each will be installed to brace the tower legs temporarily as concrete work proceeds. The trusses will eventually be encased in reeinforced concrete and prestressed to the tower legs.

The bridge is being built under a contract awarded last May to the Anglo-Japanese Construction Joint Venture.

Road management project in Belarus

RENDEL PALMER & TRITTON is working on a project aimed at rehabilitating and introducing effective management of the strategic M1/E30 road link between Warsaw and Moscow.

The road is a major corridor in the state of Belarus linking 11 towns with a population catchment of nearly three million people. The M1/E30, although designed to generous standards, is poorly maintained and managed.

Rendel, in association with the French company, BCEOM, has been appointed by the Belarus Government and the European Community.

The European Bank for Reconstruction and Development is acting as executing agency.

The objective of the four-month project is to establish an effective management and development organisation for the road.

Within this framework rehabilitation is to be undertaken and maintenance equipment procured.

Rebuilding East Sussex sea defences

EDMUND NUTTALL has won a contract to reconstruct a one kilometre stretch of sea wall between Ovingdean and Rottingdean, near Brighton, as well as to demolish a series of old groynes and construct five new ones at Rottingdean.

The £5m project is for Brighton Borough Council which, with grant aid from the Ministry of Agriculture, Fisheries and Foods, is undertaking a broad scheme of which this is the first of three stages, to encase the entire failing sea wall between Brighton Marina and the borough boundary at Saltdean.

The undercliff walk, which is liable to inundation by the sea under quite moderate storm conditions, was constructed in the 1930s by unemployed miners. The groynes have been built up in a number of stages, of varying grades of mass and reinforced concrete, since the 1870s.

The new reinforced mass concrete sea wall facing will incorporate a parapet and wave return, the total encasement depth varying from 500 millimetres to three metres thickness; the shallower having expansion joints every six metres and those over one metre thick having joints every 18 metres.

Five new 105 metre-long groynes are to be constructed at Rottingdean to retain a beach. The two terminal groynes will be rock.

PEOPLE

Alistair Mitchell-Innes, former chief executive of Isosceles, is becoming non-executive director and chairman designate of Sidney Banks, the Bedfordshire grain and agriculture specialist. The current chairman, John Burr, who has been in the position since 1980 and is 75 years old, wants to retire in January next year.

"We are not looking for someone to transform our debt situation because we have not got one," says Richard Banks, joint managing director, when asked about Mitchell-Innes's two years at the heavily-indebted supermarket operator Isosceles. "Alistair has wide experience in food manufacturing and that is the direction in which our company is moving." He has chief executive of Nabisco Group between 1985 and 1989.

Sidney Banks has recently acquired a rice-milling operation as well as a company that trades in spices and coffee.

Mitchell-Innes is also deputy chairman of H.P. Bulmer and a non-executive director of Next and Evans Halshaw.

Finance moves

■ **Mike Webb**, marketing services manager, is joining the board of PROLIFIC Unit Trust Managers, as is **Gary Marshall**, who is moving from Scottish Provident. **Caroline Robinson**, Prolific European income unit trust fund manager, is joining the board of Prolific Asset Management.

■ **James Glancy** is moving from NatWest Securities to become a director of Bell Lawrie White & Co, part of BREWIN DOLPHIN.

■ **Annmarie Sasdi** has been appointed European marketing director of BZW Asset Management. **Clare Dobie**, city editor of the Independent, is also joining BZWAM as editor of its publications.

■ **John Butterworth** has been appointed director and head of banking at HENRY ANSBACHER, part of First National Bank of Southern Africa; he moves from Wasserstein Perella.

■ **Peter Whelpton**, formerly head of the Far East desk of Prudential Portfolio Managers, has been appointed president and investment director of INDOSUEZ GARTMORE ASSET MANAGEMENT (JAPAN); he replaces **Andrew Fleming**, who is appointed head of the Pacific Rim desk in London.

■ **Sean Quinn** has been appointed a director within the service product division of SWISS BANK CORPORATION; he moves from Chase Manhattan.

■ **Guy Crawford**, a founder/director of Dunedin Fund Managers, has been appointed a director of Clan Asset Management, a subsidiary of CALEDONIA INVESTMENTS.

■ **Michael Leather** and **Graham Thelwall Jones** have been appointed directors of RATHBONE BROS & Co.

■ **Stewart Millman**, formerly joint md of de Zoete & Bevan, has been appointed deputy chairman of NATWEST Wood Mackenzie.

■ **David Moore**, formerly head of fixed income at BZW Investment Management, has been appointed a director of CREDIT LYONNAIS ROUSE.

■ **Rick Sopher** has been appointed a director of L.C.F. Edmond de Rothschild Securities.

■ **Jeremy Gray** and **Nigel Higgins** have been appointed directors of N.M. Rothschild & Sons.

Resort Hotels checks in a different chairman

Resort Hotels, which saw its shares suspended mid July and appointed independent accountants to investigate " a number of financing and reporting issues", has changed its plans regarding the chairmanship succession.

Current chairman Richard Strong has resigned, a few months earlier than planned, while Kleinwort Benson deputy chairman Tim Barker, who was named chairman designate of Resort in February, will not now take up that position, remaining as deputy chairman.

Instead, *David Tonkinson*, who had been deputy chairman until Barker was appointed, now becomes chairman. In February he "happily stood aside for someone with as much prestige as Tim Barker" as Robert Feld, who resigned as managing director when the shares were suspended, said at the time.

Barker explains that Tonkinson has "got the time available". He lives fairly near Resort's Brighton office and is "largely retired", Barker says. Tonkinson is a former managing partner of the Brighton office of Grant Thornton.

Talking and walking like a retailer

Following an internal reorganisation designed to sharpen its retailing skills, Post Office Counters has brought in Mike Flanagan to the new board position of network director.

A marketing man who has worked with Gateways, BP, Lenscrafters and Wickes, he is the only one of the six-man board who has been recruited into his current position from outside.

Post Office Counters, which runs 20,000 post offices and hence claims to be the largest retail network chain in Europe, has been slimming down its head office and transferring more accountability to retail network managers.

Under the new structure, each board member also has line management responsibilities for one or more regions, with Flanagan looking after the South East and Scotland and Northern Ireland.

Much of Flanagan's new network job had previously been performed by an operations director.

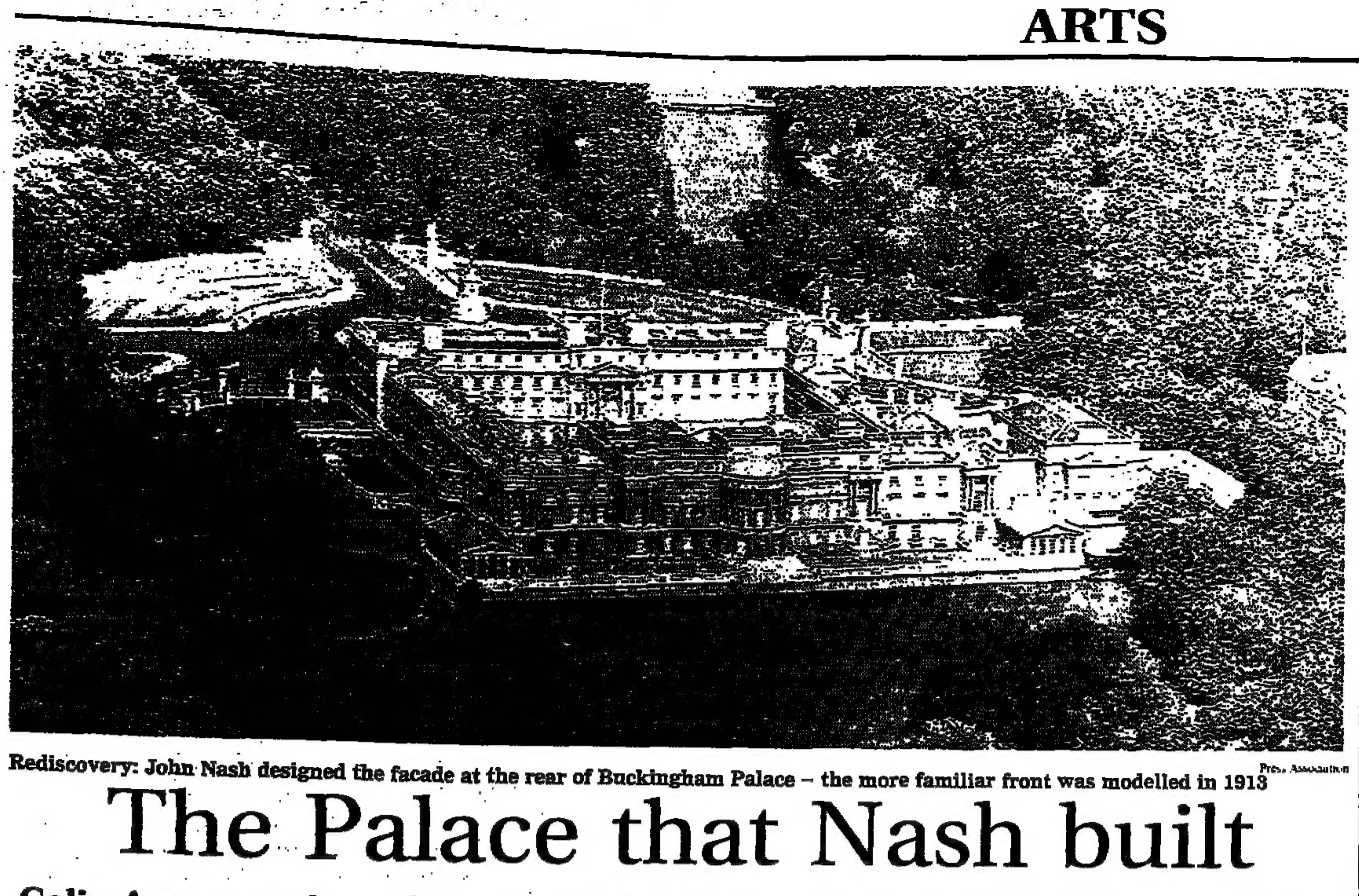
Flanagan, 44, says his aim is to dispel the "feel of going into a government office. We have 19,000 independent dealers; we need to get them to start using the vocabulary of shopkeepers not civil servants. They have to start talking, then walking, like retailers."

In the last decade, Flanagan has moved about a bit. From an advertising background, he became marketing director of Fine Fare and Gateway in the mid 1980's before moving across to BP in 1987, where he was manager of merchandise retailing.

During his three years he set up convenience stores at several hundred European petrol stations and sharpened up merchandising standards in others, in Europe, the US, and South East Asia.

He was briefly managing director of Lenscrafters in the UK, but was edged out when the company hit the recession in its home US market, and sent an American over to run the UK side. He then became marketing and buying director of Wickes Building Supplies, but fell out with his managing director six months ago.

He intends to stay at the Post Office, however. "I'd be amazed if I were not here for the rest of the century."



Rediscovery: John Nash designed the facade at the rear of Buckingham Palace – the more familiar front was modelled in 1913 Press Association

The Palace that Nash built

Colin Amery on the architectural delights awaiting visitors to Buckingham Palace

As the doors of Buckingham Palace open to the general public for the first time, it is a good moment to look at the architectural quality of London's royal quarter. Visitors who stand in the inevitable queue for their admission tickets in The Mall will find themselves on the very spot which was, until the early years of this century, the centre of an architectural debate about the appropriate metropolitan setting for the British monarchy. Looking westwards down The Mall today towards the familiar balcony front of the palace what we see is the solid, unsmiling imperial world of 1913.

King Edward VII's wish to commemorate his mother's reign led to a national competition and public appeal in 1901 for the Queen Victoria Memorial. This was won by Sir Aston Webb and there were sufficient funds left over for the refronting of Buckingham Palace – a cover-up in Portland stone of the crumbling facade that Edward Blore had designed for Queen Victoria. This heavyweight axial arrangement at palace end of The Mall is matched by the re-ordering carried out at the Trafalgar Square end where Sir Aston Webb built the Admiralty Arch in 1910.

The joyous revelation that has been made possible by the opening of the palace to the public will be the rediscovery of the world of King George IV and his architect John Nash that still lies behind the somewhat rigid and reserved public face of the palace. King George V appreciated Sir Aston Webb's efforts to make the palace appear shipshape, and knighted Sir Thomas Brock on the spot for his 13-foot high solid marble figure of Queen Victoria, but it was the earlier King George who was responsible for supporting the artistic and architectural achievement of Nash which can now be shared by the public.

When the Prince Regent became King George IV at the age of 58 in 1820, there was a sense manifested at his coronation that he represented a victorious and thriving nation. It was felt that the effectiveness of the monarchy as a symbol of national pride would be conveyed with more conviction if it could be associated with a metropolitan palace of distinction. St. James's had long been considered poverty-stricken, Kensington Place too modest, Hampton Court and Greenwich too far away, and Carlton House too close to the street and not grand enough for a monarch.

The nearest thing to a palace was undoubtedly Buckingham House, which King George III had purchased in 1762 and settled upon his consort. It occupied large grounds and had important family associations, as all George IV's brothers and sisters had been born there. This was the house the king decided to expand and virtually rebuild with Nash's help. There is no doubt that King George IV and John Nash shared a vision of London as an important and beautiful European capital. The construction of Regent Street, the laying out of Regent's Park, and the replacement of Carlton House by the great stucco Carlton House Terraces, are all part of this vision. The picturesque arrangement of St. James's Park is largely the design of Nash and it brought a particular relaxed Englishness to the palatial formality he was to build on the site of Buckingham House.

Summer visitors to the palace will enter by a side door but will soon find themselves in Nash's quadrangle which they will cross to enter the state apartments through Nash's grand entrance portico. The original Nash palace was a three-sided building open to The Mall, and roughly where the gates are today stood the Marble Arch as a triumphal entry to the royal domain. It is worth remembering that the architect had the restraining bones of old Buckingham House to deal with, which had been added to but was never really seen as a palace. Also, he was always under financial scrutiny and his client had the reputation of letting money slip through his fingers with remarkable ease. Despite all this Nash achieved a suite of state rooms that is one of the architectural secrets of Europe.

Although some of their decoration has been modified the major rooms (with the exception of the Picture Gallery) can be seen as largely Nash's creation. The rooms with their furniture represent the final flowering of the king's Francophile taste and reflect also the influence of Charles Long, Lord Farnborough, who was the éminence grise behind all George IV's building projects. What visitors will enjoy is the very high standard of craftsmanship and sculpture in all the rooms. Nash rightly brought to the palace the best carvers, sculptors and craftsmen he could find.

Each room is both dignified and rich: the Green Drawing Room and the Throne Room on the courtyard side have a ceremonial distinction that sets them apart from some of the more relaxed but equally rich rooms on the garden side. Nash was good at smaller rooms, too, and at arranging for a sense of theatre as visitors progress from the low-ceilinged ground floor rooms to the grand staircase and the remarkable mirrored enfilade of the state rooms.

Originally George IV had intended Buckingham Palace to be his private London residence while he used the refurbished state rooms of St James's Palace for his Court functions and ceremonials. It was his buoyant enthusiasm for Nash's new palace that brought about the decision to use it as a state palace. It was this decision that was responsible for the immense enrichment of the state rooms, especially the elaboration of their gilded ceilings. It is important to remember that it is the Edwardian redecoration of Buckingham Palace that gives it that overall air of red, white and gold. When Nash had completed his work there was more colour, more silk on the walls and a less institutional feel to much of the palace.

To see the state rooms today is still an immense thrill because they represent one of the most original architectural achievements in any European palace; they retain to a degree that particular sense of English splendour that is both low-key and sumptuous.

Theatre/**Malcolm Rutherford**

The Basset Table

Susanna Centlivre, who died in 1723, is having a pretty good year. After well over a century of neglect, two of her plays have been produced on the London fringe in the past few months and, on the evidence so far, one must hope for more.

Ms Centlivre was one of the first women playwrights. As a contemporary of Congreve, Farquhar and Wycherley, she had a lot to compete with. She was also prolific in her output and one wonders now, with obvious hindsight, whether she was perhaps the most interesting of them all. Today some of her topical references seem obscure, but no more than in the others.

Her talent was not so much to write good plays – her plots and sub-plots are all over the place – as to write good parts. She did so in abundance. When *The Artifice* was revived at the Orange Tree in Richmond earlier this year, I was struck by the sheer number of roles – Mr Watchitt and the Widow Heedless, for examples – that any actor or actress would like to have played.

Now that *The Basset Table* is appearing at the New End Theatre in Hampstead, another compliment is in order: Ms Centlivre wrote some very good scenes. Basset is a game previously unknown to me. It appears to consist simply of wagering which card will come up closest to your own, with the odds lying heavily in favour of the banker. It is much more primitive than (say) pontoon and entirely devoid of skill.

At Hampstead they seem to play it with 2p pieces, no doubt as a symbol of the shoe-string nature of the theatre. Yet precisely because the game is so primitive, it brings out the addictive nature of the gambler, and in the women more than the men. The specific scene at the table, where they cheat under and over the counter, is magnificent, almost a forerunner of subsequent Hollywood movies about other games for higher stakes.

Yet that is not all. *The Basset Table* contains a wonderful female character in Valeria, whose interest in the gaming table is non-existent. Played by Geraldine O'Connell, she is a scientist and philosopher who dissects animals in the pursuit of knowledge about the human condition. "Cousin," she says to another woman, "I'll give you this jewel for your Italian greyhound," which she intends to cut up.

In a later period Valeria might have been called a bluestocking. Ms Centlivre, however, is much more subtle than that. Valeria is a most attractive lady who dresses well, knows the man she wants and gets him in the end.

It is tempting to say, and some people do say, that this was the advent of feminism. Valeria is attacked for her interest in science not only by her embarrassed father, but by the rest of the females. "Ridiculous learning," says one. "Ridiculous, indeed, for women," says another. "Philosophy suits our sex as jackboots would do."

My own view is that Ms Centlivre was remarkably even-handed. Some of the men are dolts as well as some of the women; some of the men, such as Tony Tarrats as Sir James Courtly, are also clever and generous. She gives an overall, accurate view of society, and she does it in such a sprightly fashion that this production by the Company of Clerks deserves a bigger showing than the tiny Hampstead stage allows. The list of good parts (13 in all) extends all the way down the line, notably Constance Byrne as Mrs Sago. Between them the Orange Tree and the New End have begun a major work of restoration.

New End Theatre Hampstead until August 29. (071) 794 9963

Music/**Paul Driver**

Goehr at Tanglewood

Tanglewood is the most celebrated and influential of America's numerous summer music festivals. With its concert series and renowned summer school for performers and composers – the Tanglewood Music Centre – it is blessed beyond its musical distinctions with as romantic a site and mountain prospect as can be found anywhere. Dating back to the early 1930s, the festival has from the start been a major enterprise of the Boston Symphony Orchestra, whose then conductor, Serge Koussevitzky, created the school and selected the architect (Eliel Saarinen) for the famous "shed" – an enormous radial structure, open at one end to the elements, but possessed of remarkable acoustics – which since its 50th anniversary, in 1988, has borne his name.

Beyond the shed's slender posts stretch immense lawns shaded by a fantasy of lofty trees and decorated by topiary hedges, a vine trellis and a recently installed "analemmatic" sundial. Besides the shed, there is a "theatre-concert hall" for recitals, student concerts and the events of the subsidiary Festival of Contemporary Music. A new concert hall now being built will release the theatre-concert hall for operatic productions by the TMC. The shed seats 5,000. When the lawns are fully occupied, the total capacity is well over 16,000, and the feeling is truly of a "national" occasion.

The main (orchestral) concerts take place on Friday and Saturday nights and Sunday afternoons throughout July and August – a total of 22 appearances by the BSO this year, in programmes making a feature of Tchaikovsky and Rakhmaninov, respectively 100 and 50 years dead. Very much alive – nearly 61 years old – is the British composer Alexander Goehr, who is in residence the summer long to teach the TMC composition fellows and enjoy a "mini-festival" of performances of half a dozen of his own works, including a repeat of the 25-minute piece *Colossos or Panic*, Op. 55, written to a Koussevitzky commission for the BSO and premiered at Symphony Hall, Boston, last April. (It was warmly welcomed on this page by Paul Griffiths.)

The Goehr context was nicely sketched in a "Prelude" concert by the Tanglewood Festival Chorus – his *a cappella Imitations of Baudelaire* (1985) – and the three programmes forming the first half of this year's contemporary music festival. Composer-conductor Oliver Knussen has been in charge of the latter for seven years, and for this his last festival he has chosen to arrange the concerts in two "clusters" separated by three weeks. Treats such as Stockhausen's *Gruppen* for three orchestras are in store for the end of the month.

Meanwhile we have had some sufficiently fascinating evenings. On August 1, for instance, TMC players and conductors began with Robin Holloway's aptly mosquitoey and stickily-irritable *Summer Music* (1992), proceeded to a dynamic, high-definition Stefan Wolpe quartet (*From Here On Farther*, 1969), Hanns Eisler's amazingly deft, deliciously fleet *Fourteen Ways of Describing Rain*, Op. 70 (originally a film score), and a rare and tantalising bit of Busoni (the Red Indian-inspired *Song of the Spirit Dance*, from 1915), before ending with Goehr's superbly cogent and touching *Little Symphony*, Op. 16 (1963), in an account under Knussen's own direction that was a model of keenness and clarity.

Goehr's fine piano trio (1966) had been played the previous night; and the following night brought his ambitious and curious song-cycle to Frank Kermode's elaborate cento of English poems, *Sing, Ariel*, Op. 51 (1990), conducted by Knussen, its dedicatee. The work is curious not least because the instrumental parts, or at any rate the piano and double-bass cadenzas, tend to sound more commandingly lyrical than the mezzo-soprano (Lucy Shelton) herself or her two soprano accomplices.

The big Goehr orchestral piece, given on a Sunday afternoon programme under (as before) Seiji Ozawa, also struck me as curious – impressive, original, felicitous, but not untypically evasive in sensibility and gesture. I find it nearly impossible to relate the music to the alarming Goya image on which it is allegedly founded.

The colossus to which the two movements do react is more likely the monster of Musical Tradition. This is a self-proclaimed "symphonic fragment", not a symphony. It seeks to avoid and yet has been partially crushed by the giant foot of the Past. Steeped in traditional rhetoric, the music nonetheless attempts to reduce it to ridicule.

The two movements seem uncertain of their precise function while toying with symphonic archetypes. A scherzo-and-trio form is buried in the first (and longer) of them. The second, marked Maestoso, evokes the pulsing string lines, the ecstatic melodic sequences of a Bruckner Adagio, but instantly wrecks such expressivity with ironic measured clops of the celesta. There is great beauty, though, to be found in ruins, and Ozawa's confident reading revealed it in all its strangeness.

Dance/**Clement Crisp**

Isadora's Day

Isadora! The first name is enough, and she haunts us still. Whatever Isadora Duncan was in her life – free soul and freed body, the inspirational dancer of her great years or the sagging relic of the last days in Nice – she reverberates through the artistic consciousness of our century as have few other women. Extraordinarily, for a dancer whose legacy to us is no more than a frayed reputation and some glorious photographic images, Isadora still inspires, is still emulated.

So, on Wednesday, the Royal Festival Hall's jolly Ballroom Blitz season (all kinds of dance for all kinds of people) held a Duncan Day. There were videos, classes, a performance of dances from Gluck's *Orfeo* (some ascribed to Duncan, others made in what is believed to be her style) by performers from Moscow, Paris and London, to indicate the continuing and persistent image of that heroic figure whom we see caught between the portals of the Parthenon by Edward Steichen's camera.

Today Duncan's life matters less – typical of her as it was in its enthusiasms and impracticalities – than the idea of what she did. Gordon Craig, father of one of her children, told of the excitement of her presence. "She was speaking her own language ... and she was telling to the air the very things we longed to hear and until she came we never dreamed we should hear; and now we heard them, and this sent us all into an unusual state of joy." This image of the ecstatic dancer, immeasurably beautiful in her message, is what her public and her pupils treasured, and it is one we treasure still.

No film exists of Duncan. We know her through legend, through myriad drawings, through Steichen's and Steiglitz's photographs. "Duncanism", as a way of movement, was perpetuated after her death by pupils, but little of what I have seen of reconstructions has persuaded me that this could inspire artists and thrill audiences as did Duncan's every move. Probably the best indications of Duncan's manner came from Ashton's *Brahms' Waltzes* for Lynn Seymour, where dancer and dance beautifully imagined her presence; from Vivienne Pickle's astonishing impersonation in Ken Russell's television study; and from the joint performances of Merle Park and Mary Miller in MacMillan's *Isadora*. What we sensed in these homages was the intoxication of Duncan's movement, and its communicative grace and power.

Wednesday's dutiful exposition by dancers and pupils from the Moscow School of Music and Movement, and the London-based Isadora Duncan Dance Group, was something altogether more sober-sided – not a quality one would associate with Duncan. At its best, in *Orfeo*'s two Laments and the Dance of the Blessed Spirits, the dance had a simplicity and a gestural clarity (arms slowly raised, bodies held in sculptural poses) that touchingly told of Duncan's worship of the antique. Other sequences were too innocent in means, and what was proposed as Duncan's own dances for the Furies did no service to her memory or to Gluck.

Yet Isadora still speaks to dancers, be it in spirit messages – which these dances really were – or as educational example. The Duncan Dance Group plainly reveres her example. A Moscow *Duncan Academy* existed until 1946. (Duncan went to Russia in 1921 to teach the children of its new society to dance.) The Moscow performers are from a school lately founded to provide training inspired by Duncan's ideals. Edward Gordon Craig said that Duncan's dancing was "Something uttered on the divine theme". We can do worse for the young than show them this.

INTERNATIONAL ARTS GUIDE

■ BERLIN

THEATRE

Metropol-Theater has daily performances of Evita from tomorrow till Sun (2036 4117). Komödie has daily performances of Neil Simon's play Runaway (882 7893). Freilichtbühne an der Zitadelle has open-air performances of Shakespeare's A Midsummer Night's Dream daily from tomorrow till Sun, followed next week by Schiller's The Robbers (331 8920). The Schaubühne opens its new season on Aug 20 with Georg Kaiser's expressionist drama From Morning to Midnight (890023)

MUSIC/DANCE

There are daily jazz and pop concerts at Eierschale I, II and III concerts at Eierschale I, II and III (832 7097, 882 5305, 272 7370). The 1993-4 season at the Deutsche Oper begins with a Ring cycle, first night Aug 24 (341 0249). Merce Cunningham Dance Company appears at Staatsoper unter den Linden on Aug 25, 26 and 27. Daniel Barenboim conducts August Everding's open-air staging of Die Zauberflöte at Waldbühne on Aug 29, with a cast led by Peter Seiffert and Eva Mei (200 4762). The Berlin Festival opens at the Philharmonie on Aug 31 with a Mahler concert conducted by Barenboim (254890)

■ BONN

Belgian pianist André de Groote gives the second recital in his complete survey of Beethoven piano sonatas tomorrow at Beethoven-Haus, continuing every Tues till Sep 28 except Sep 1 (632500). Bonn Opera opens its 1993-4 season on Aug 28 with Prokofiev's ballet Romeo and Juliet, followed on Aug 31 by the first of five performances of the new Lyubimov/Schnittke music-theatre piece Hommage to Zhivago (773667)

■ DRESDEN

Dresden Philharmonic Orchestra gives open-air serenade concerts at Schlosspark Pillnitz on Sat and Sun (also Aug 29), featuring music by Dvorak, Dittersdorf and Mozart (4866 666). Giuseppe Sinopoli and the Dresden Staatskapelle open the new season at the Semperoper on Aug 29 with the first of three symphony concerts (4842 323)

■ FRANKFURT

● Frankfurt trombonist Albert Mangelsdorff gives the last of this summer's open-air jazz concerts in Palmengarten on Thurs, with his American trio partners Eric Watson and John Lindberg. The concert begins at 19.30 at the Musikpavillon, or if raining at the Palmengarten Gesellschaftshaus.

● The 1993 Frankfurt Festival opens on Sep 3 at Alte Oper with the first of two concerts by St Petersburg Philharmonic Orchestra. Other guest ensembles include Ensemble Modern, Wiener Akademie original instrument group, National Youth Orchestra of Great Britain, Young Israel Philharmonic, Budapest Festival Orchestra, Chamber Orchestra of Europe and La Scala Philharmonic (1340 400)

■ GENEVA

Hôtel de Ville Tonight: Dee Dee Bridgewater, jazz. Wed: Pascal Verrot conducts Orchestre de la Suisse Romande in Britten's Les Illuminations (Audrey Michael) and works by Boccherini, Bizet and Roussel. Sun: Philippe Girard conducts works by Rossini, Mozart, Bizet and Milhaud. Next Mon (in Victoria Hall) and Tues: Eric Ericson directs Drottningholm Baroque Ensemble and Chamber Choir in music from Drottningholm. Further orchestral concerts on Aug 18, 20, 24, 26, plus a piano recital by Roland Pöntinen on Aug 19 (312 4353)

Théâtre de Verdure Wed: Bob Wilber jazz quintet. Aug 18: The Real Group vocal quintet from Sweden meets Lena Willemark. Aug 23: piano evening with Henri Chaix-Francois Magnin and Jean-Loup Muller. Aug 25: Dry Throat Fellows, 1930s jazz. Aug 27: Stockholm Jazz Orchestra (386 3876)

■ NEW YORK

THEATRE

● Kiss of the Spider Woman: a Kander and Ebb musical, based on the novel by Manuel Puig, directed by Harold Prince, with a star performance from Brent Carver as the heroic homosexual window dresser (Broadhurst, 235 West 44th St, 239 6200)

● Angels in America: the first half of Tony Kushner's epic, freewheeling play about gay life, Reagan-era politics and Mormonism. Not to be missed (Walter Kerr, 219 West 48th St, 239 6200)

● The Sisters Rosensweig: Wendy Wasserstein's play, a comedy with serious undertones, about the reunion in London of three American Jewish sisters (Ethel Barrymore, 243 West 47th St, 239 6200)

● The Perfect Ganesh: Terrence McNally's poignant play about two middle-aged American women from Connecticut making a pilgrimage through India (City Center Stage 1, 131 West 55th St, 581 1212)

● Jelly's Last Jam: an adventurous and beautifully mounted tribute to the great jazz pioneer Jelly Roll Morton, written and directed by George C. Wolfe (Virginia, 245 West 52nd St, 239 6200)

● Forbidden Broadway 1993: Gerard Alessandrini's musical satire of current Broadway hits, including spoofs of Julie Andrews and Tommy Tune (Theater East, 211 East 60th St, 838 9090)

MUSIC/DANCE

● Mostly Mozart Festival: William Christie conducts Les Arts Florissants in tonight's concert performances of Purcell's Dido and Aeneas and Charpentier's Actéon. George Cleve conducts this week's Mostly Mozart Orchestra concerts, featuring pianist Horaccio Gutierrez and violinist Gil Shaham tomorrow and Wed, and pianist Imogen Cooper and flautist Jean-Pierre Rampal on Fri and Sat. A chamber music concert on Thurs features violinist Joseph Silverstein, soprano Harolyn Blackwell and others. The festival runs daily except Sun till Aug 21 (Avery Fisher Hall 875 5030)

● New York City Opera: this week's repertory consists of Tosca (tomorrow and Sat afternoon), La boheme (Wed), Carmen (Fri) and Romberg's The Student Prince, which begins a 15-performance run on Sat evening. The first new production of the season is Tippett's The Midsummer Marriage, opening on Sep 9 (State Theater 870 5570)

■ STUTTGART

LUDWIGSBURG FESTIVAL

Antonio Meneses and Cecile Licad give a recital of cello sonatas on Thurs, followed by a concert of Spanish guitar and choral music on Fri with the Academy of St Martin in the Fields Chorus, plus flamenco singers, percussion and guitarists including Paco Pena. Sat: Deon van der Walt song recital. Next Mon: Barbara Hendricks. Aug 25: Neville Marriner conducts ASMF. Aug 26: Anne Sophie Mutter. The festival runs till Sep 26 (07141-949610)

■ VIENNA

● The final week of open-air performances in the palace gardens of Schönbrunn features a Moscow Chamber Ballet staging of Mozart's Requiem tonight and tomorrow, and Vienna Kammeroper's staging of Don Giovanni on Wed, Fri and Sat. The Schlosstheater at Schönbrunn opens a week of Mozart opera performances on Aug 21 (513 0851)

● Gidon Kremer is violin soloist with Asian Youth Orchestra in a programme of Schnittke and Sibelius at Konzerthaus on Thurs. Other events this week include chamber music recitals with violinist Christian Altenburger and friends at Konzerthaus tomorrow and Wed, an operetta concert with Heinz Zednik and other soloists at Theater an der Wien on Thurs, a German Youth Orchestra concert conducted by Lothar Zagrosek at Arkadenhof on Fri and a Mozart, Haydn and Bartok orchestral concert directed by Sandor Vegh at Theater an der Wien on Sun. There is also a series of Schubert song recitals at Lichtental (4000 8410)

■ ZURICH

KYBURGIADE

The chamber music festival at Kyburg Castle near Winterthur opens on Thurs and continues with daily events till next Tues. Its unique atmosphere stems from the open-air courtyard setting and the participation of one of Europe's leading young string quartets, the Carmina Quartet. They are joined this year by the Vienna String Sextet, the Orlando, Cherubini and Manfred Quartets, the Basle Madrigal Soloists and clarinettist Michael Collins. The programmes range from Mozart, Beethoven, Brahms and Dvorak, to less familiar music by Bruckner and Fanny Hensel-Mendelssohn (Booking at Winterthur Tourist Office 052-212 0088, or Musikhaus Jecklin in Zurich 01-251 5900)

ARTS GUIDE

Monday: Performing arts guide city by city.
Tuesday: Performing arts guide city by city.
Wednesday: Festivals Guide.
Thursday: Festivals Guide.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

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MONDAY TO THURSDAY
Super Channel: European Business Today 0730; 2230
Monday Super Channel: West of Moscow 1230.
Super Channel: Financial Times Reports 0630
Wednesday Super Channel: Financial Times Reports 2130
Thursday Sky News: Financial Times Reports 2030; 0130
Friday Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0930
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

No more buried treasure

The economic argument is winning in the UK coal debate, says Tony Jackson

What is to be done with Britain's coal? There it lies underground, some 2bn tons of it: enough to power the nation – in theory, at least – for several hundred years. But after nearly a millennium of working, the cheap coal has gone. The world has vast new reserves to exploit, and British coal no longer repays the cost of digging it up. In pure economic terms, what is the case against closing the pits tomorrow?

The point can be put another way. The world has a finite stock of hydrocarbons. Eventually, as they start to run out, the price will rise. That may take another century or two; but at some point, British coal will acquire a value again. Is it not in the national interest meanwhile to leave it where it is?

The coal industry has a standard answer to this. Even if you stop mining, the pits cost £2m a year each to maintain. If you do not maintain them, they collapse. In that case, if you wanted to regain access to the coal, you would have to dig pits again from scratch, at a cost in today's money of £400m-£500m each. Meanwhile, you are left with huge liabilities in terms of redundancy, industrial sickness and land subsidence.

In the long run, none of this makes real economic sense. The liabilities are a matter of historical fact: the only question is when they are to be addressed. As for the cost of new pits, that is simply part of the calculation. If the coal price is high enough to justify it, well and good. If not, good again.

But hang on, says the coal lobby. If you shut the pits, you are throwing away two kinds of asset: the coal itself, and the means of getting to it. And in terms of the national interest, if you import coal, what about the balance of payments?

This does not make economic sense either. If a thing costs more to obtain than it will sell for, it is not an asset. There is quite a lot of gold and silver underground in Britain. It stays there because it costs too much to recover. No one suggests digging it up regardless, as a means of helping the trade balance. Subsidising production for the sake of import substitution is simple inefficiency.

And British coal is massively subsidised. The director-general of electricity supply puts the amount, in the form of an artificially high coal price, at £2.3bn over the past three years. That cost is paid by the British public, through a higher electricity price. As a tax on business it is a misallocation of resources. As a tax on individuals it is wickedly regressive, since it hits hardest those who spend most time at home: the old, the sick and the unemployed.

As for the asset value of the pits themselves, that is mostly depreciated. Where it is not, there is still no point in throwing good money after bad. There is an analogy to be drawn from the oil industry. Installing a platform in the North Sea costs around £500m, the same as sinking a pit. The oil company will carry on producing until the running costs are higher than the value of the oil. It will then shut the platform down. This involves environmental liabilities, just as with coal. There is also the same option of going back for the remaining oil a century hence. The sums may be tricky; but even if they showed the investment to have been misconceived in the first place, no commercial oil company could convince its shareholders that it should therefore go on running it at a loss.

China still has rich seams of coal because it is at an earlier stage of economic development

It might be argued that to characterise the whole British coal industry as uneconomic is too sweeping. Certainly, opencast mining is profitable, and a handful of pits might be so. In pure economic terms, there is one simple way to find out. Let each pit operate as a separate commercial entity, competing freely on price. The obvious risk is that short-term price-cutting could prove so ferocious as to drive inherently viable pits out of business. But it should not be beyond the wit of government – which still has a hand in setting the UK coal price – to devise some kind of transitional arrangement.

Above all, the coal industry is now so small as to be in economic terms almost irrelevant. The whole value of Britain's coal reserves at today's price is roughly equal to a month's output of the national economy. In turnover terms, British Coal is smaller than Bass, the UK brewer, and half the size of J Sainsbury, the British supermarket chain. It still employs 20,000 miners, and to put them out of work would be atrocious. But these are atrocious times. BT laid off 19,000 workers on a single Friday in July last year.

The political dimension, of course, is something else again. The government tried to wash its hands of the whole affair by privatising electricity, thus aiming to expose the coal industry to the free market. But as it found to its consternation last October, coal still strikes an atavistic chord with the British voter. The whole of the foregoing argument is therefore in one sense irrelevant. However much the government accepts the case, it will proceed only timidly and by degrees.

But in another sense, it is the political argument that is irrelevant. Production of British coal has fallen remorsely for almost 40 years, as has the number of miners. In 1955, British Coal's staff totalled over 700,000. It is now 44,000. In other words, over the long haul the economic logic is winning. It is worth putting such figures in context. Between 1973 and 1990, British coal production fell by 2.2 per cent a year on average. Across Europe as a whole, production fell by 2.3 per cent.

The reason is obvious enough. Europe led the world in the industrial revolution, and used coal to do it. A country like China still has massively rich seams of coal because it is at an earlier stage of economic development. If there is cheap coal to be had elsewhere, the industrialised nations should count themselves fortunate.

The demise of British coal is not a sign of decline. With luck, it should be a sign of progress.

Fiat is pinning its hopes on a model launch and a showcase 'integrated' factory, writes **Kevin Done**

Man and machine in harmony

For three years Fiat Auto has been living for tomorrow. Beset by the woes of the present – a plunging market share and crumbling profitability – Fiat has been forced to break with the traditions of auto industry secrecy to trumpet abroad its future product plans long before their launch dates.

From 1992 to 1999 Fiat Auto, the car and light commercial vehicles subsidiary of Italy's leading industrial group, is planning to spend L40,000bn ($25bn) mainly on capital investment and research and development. Between 1992 and 1996 it is promising the launch of 18 models.

It has been darkest just before the dawn. Last year Fiat's automotive operations plunged into an operating loss of L544bn after a three-year slide from an operating profit of L2,362bn in 1989. Its share of the Italian market, once an impregnable domestic fortress, has tumbled in only four years from 60 per cent to a historic low last year of 44 per cent.

In 1988 and 1989 it was proudly challenging the Volkswagen group for leadership in west Europe, as both carmakers hovered at about 15 per cent of the new car market.

But burdened by a humdrum product range and under severe attack from foreign rivals at home, Fiat's fortunes have waned. By last year its share of the west European new car market had shrunk to only 11.9 per cent, while Volkswagen had surged to 17.5 per cent. The Fiat group, which includes Alfa Romeo and Lancia as well as Ferrari, Innocenti and Maserati, fell back to fourth place last year as it was overtaken by both General Motors (Opel/Vauxhall) of the US and PSA Peugeot/Citroën of France. It has lost further ground in the first half of this year.

Virtually all of Europe's leading carmakers have been forced on to short-time working this year in the face of a precipitous drop in demand – new car sales fell by 17 per cent in the first six months – but Fiat was already forced to start cutting production in late 1990. It cut 259,000 vehicles from 1991 output, 230,000 last year and 173,000 in the first six months of this year alone.

However, it insists that the steep decline in west European car sales and the resulting fierce financial squeeze is not yet forcing it to rein in its capital and research and development spending – as at its arch-rival, Volkswagen.

Now, finally, Fiat is poised for the counter-attack.

At the end of this month it will unveil in Turin its Punto small car range, the model that will eventually replace the current Uno and will become the most important single model in the Fiat range. The Punto alone will account for more than 40 per cent of the group's total European sales.

The development of the Punto represents much more than just a new car for Fiat, however, to take on rivals such as the Ford Fiesta, the Opel Corsa, the Renault Clio and the Nissan Mircra. In the dusty plains of the Mezzo Giorno in the deep south of Italy, Fiat is also transforming the way that it builds cars with the construction of Europe's most modern car plant.

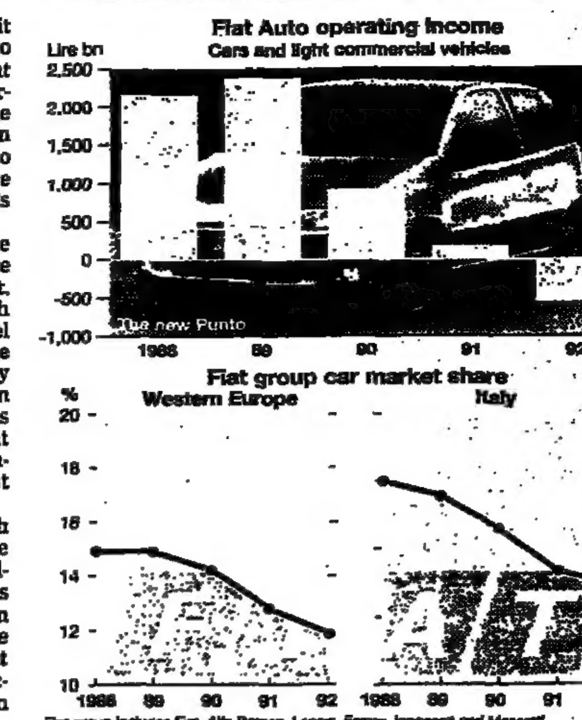
The factory at Melfi, which will begin trial output of the Punto in September and volume production in January, is the showcase demonstration for Fiat's new theology of the "integrated factory", which it has begun to test out selectively at its existing plants in the past 18 months.

Melfi has all the advantages of a greenfield site, a clean drawing board and a new workforce free of the legacy of old industrial practices. The average age of the Melfi workforce is 26 compared with 46 at existing Fiat plants. It promises a substantial leap in productivity to match the best Japanese levels, and will revolutionise the way that Fiat deals with its component suppliers.

Melfi is supposed to move car manufacturing into a new era beyond the much-vaunted lean production of the Japanese carmakers. There is no office building. All technical staff are being moved into the plant beside the stamping, welding, paint and final assembly lines. Work teams are being enlarged to include their own engineering and maintenance specialists in a new form of factory organisation.

Melfi also represents a stark change of tack by the Italian carmaker from its foray into

Fiat: darkest hour is before dawn



Fiat group includes Fiat, Alfa Romeo, Lancia, Ferrari, Innocenti and Maserati
Source: Automotive Industry Data

the extremes of automation at its Cassino plant in the mid-1980s, where it took the robotisation of final assembly to levels never dared by any other carmaker.

The Cassino automation experiment was a demonstration of strength by Fiat to the trade unions – after years of industrial strife – that robots could take over many assembly functions from workers. The robots have danced at Cassino, but the extreme automation has never yielded the planned-for productivity benefits.

The Punto will account for more than 40% of the group's total European sales

At Melfi the accent has changed. "Cassino was focused on 'hard' issues, Melfi is about 'soft' issues," says Paolo Cantarella, Fiat Auto chief executive. "The integration of man and machine is different at Melfi. It is about how to organise activities, to involve people, to train them and keep them motivated to the job, rather than how to put the wheel on the car. We know how to do that."

The development of the Punto and the Melfi plant mark, too, another watershed for Fiat in development and engineering. For the first time it has developed a new car with a multi-functional "platform team", drawing its own specialists from different functions within Fiat, ranging from design and product engineering to manufacturing engineering, purchasing, finance and marketing.

Fiat claims that it has reduced the development time of the Punto to 36 months, thus cutting at least a year from its previous development programmes.

The stylish and urbane Cantarella, chief executive of Fiat Auto since 1991, chose himself to be a member of the Punto project team. "This was the first time we have developed a car in this way, and it was important to eliminate operational problems from the start. I was very involved in problem-solving, and it was vital to shorten the decision-making process. This car is most important for our balance sheet. And I am a car guy."

With little to boast about in the present, Cantarella prefers not to dwell on the group's financial performance. Instead, he takes important visitors on a tour of the Fiat styling studios, enthusiastically removing the dust covers from the cars that are supposed to restore some of the glitter to Fiat, Lancia and Alfa Romeo.

Carmakers are normally allergic to revealing future products before they are ready for launch, but Cantarella is eager to show how the future will take shape. He reveals the large new Alfa Romeo saloon to replace the 164 probably in 1996, and already for the end of next year a new Alfa Romeo coupé and convertible.

At the Fiat safety centre in Turin, where crash tests are performed on more than 300 cars a year, he readily points out the wrecked prototypes of a new Fiat Tipo for 1995 and the replacement Alfa Romeo 33 for 1994.

Cantarella has been concerned at the lack of glamour of current products, but he is aiming to change the group's image by introducing a number of small-volume niche products to add excitement to the main volume models, mainly coupés and convertibles. To assemble the niche cars he is turning to the independent Turin design houses and "carrozzieri" or body builders.

The dearth of new product is finally ending, but it will still take another two years before Fiat can start reaping the full benefits as production volumes are raised.

"Fiat is a pretty efficient producer," insists one of its leading component suppliers. "Its problem is not its cost-base but its model range. If it had the models, it would be quite a force. If the Punto is successful it could change its fortunes dramatically."

For Fiat the moment of truth is dawning.

LETTERS TO THE EDITOR

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Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

'Stagflation' is a real possibility

From Mr John Mueller.

Sir, It appears that the fundamental shortcoming in the argument by the "MIT Six" (Personal View, July 29) has not yet been pointed out. The European Community is suffering high and permanent unemployment primarily due to large increases over the past two decades in social benefits and the minimum wage. This has put an above-market floor under wages, causing a labour surplus.

Reflation accompanied by devaluation can reduce such unemployment if it raises the level of prices and nominal incomes while the level of social benefits and the minimum wage remains more or less fixed. But almost all such benefits are now indexed to rise automatically with wages or prices, or provided in kind. Therefore, reflation can reduce permanent unemployment only if minimum wage and benefit formulae are cut or de-indexed at the same time.

Reflation without such changes is merely a formula for 1970s-style "stagflation" - simultaneous high inflation and high unemployment.

John Mueller,
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US

M25 measure puts Britain en route to recovery

From Mr Ray J Beazley.

Sir, The Confederation of British Industry, the retail trade and many others use sophisticated methods for measuring the state of Britain's economy, but we suggest the M25 motorway is a simpler test.

I, and others in this company, use the M25 regularly and there was an obvious decrease in commercial traffic as the recession tightened its grip. However, in the last few months we have all commented on the way the volume of traffic is building again. Add to that the fact that, as suppliers of industrial water-filtering equipment, we are seeing a definite spurt in orders from customers with diverse interests, and we reckon the future is looking good.

It would be interesting to know if others have off-beat methods of reading the economy.

Ray J Beazley,
managing director,
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Incentive removed

From Mr Colin G Trotman.

Sir, Oftel was set up to ensure competition in the telecommunications market after the privatisation of BT. However, the result of its ruling against the dominant company's special Sunday offer ("BT 'special offer' calls ruled unfair", August 3) is a reduced incentive for rival operators to expand their network, and for BT to maximise the benefit of its existing infrastructure. Meanwhile, the consumer is denied the opportunity of BT's competitive gestures.

Colin G Trotman,
53 Wallisden Avenue,
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Hampshire PO14 1HS

NE and carbon emissions savings

From Mr Adrian Ham.

Sir, Charlie Kronick's letter (August 5) is rather simplistic, both in his exposition of nuclear costs and his remedies for greenhouse gas emissions. To put the record straight: nuclear power is already part of the UK's policy for reducing CO_2 emission.

Nuclear Electric saved the emissions of around 13.5m tonnes of carbon last year, compared with the emission level from the UK fossil fuel mix for the same amount of electricity. If this greenhouse gas saving had been achieved at the cost ratio indicated by the Energy Saving Trust, £1,000 per tonne of carbon, an investment of £13.5bn would be required, half of which would come from levies on the price of energy to the customer.

Everyone realises that the cleanest way of cutting CO_2 levels is to use less energy – we all can and should do what we can, and any sane person wishes to see the EST succeed. But the realistic question is – how much is likely be saved by all the conservation methods available? The EST has set an objective of 2.5m tonnes of carbon by 2000. Before then, Sizewell B will be saving 2m tonnes of carbon a year.

Meanwhile, future nuclear power can produce electricity at 3p/kWh or below, compared with typical large tranche costs for wind power of in excess of 4p. This is on the same capital return basis and includes allowances for all decommissioning costs at the end of a nuclear plant's life.

As Charlie Kronick knows, most current NE provisions for decommissioning and waste relate to previous CEGB operations of Magnox and AGRs before Nuclear Electric's creation. It is a pity that he muddled up the Nuclear Electric position with that of the entire industry, thus managing, unintentionally I am sure, to double the figures for NE's liabilities. Our net asset position is, in fact, improving, as would be expected from a growing and successful company.

Adrian Ham,
chief economist,
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Ostriches go way back

From Mr Peter J M Rodger.

Sir, Matthew Kaminski's article, "Feathered herds give heavyweight profits" (July 29), talked about ostriches being "first introduced ... in the mid-1980s" to the US.

In fact, ostrich farms abounded in south-west US more than 70 years or so ago. I recall seeing several old photographs of ostrich farms in Arizona. This is not a new phenomenon, merely an old one revived.

Peter J M Rodger,
White Horses,
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Devonshire DV07,
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Changes, yes – but no 'demise' of The Engineer

From Mr Trevor Crawford.

Sir, Rumours of the "virtual demise" of The Engineer (Letters, July 28) are not merely exaggerated – they fly in the face of the facts.

Important changes are indeed afoot at The Engineer. We are making them in response to a change in manufacturing as industry recovers from recession, leaner, fitter and more commercially aware than ever before.

Mr Gibson asserts in his letter that engineering is a dynamic business which needs publications with real authority. Quite so. The Engineer has achieved that authority by evolving to keep pace with the industry it has served throughout its 137-year history.

The latest developments to be unveiled this September are geared to help engineers meet the challenges of today's and tomorrow's manufacturing environment.

There will be a stronger editorial focus on manufacturing-specific, job-useful information, particularly in feature articles. Our popular new technology section will be joined by a highly selective new product section, and we will reinstate a reader inquiry service.

What will not change is our emphasis on hard, interpretative news, underlined by a new editorial design.

With this kind of investment in The Engineer, it should be easy to conclude that we are committed to keeping the stream of information to industry constantly on tap.

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Mr Clinton's taxing deal

A PRESIDENT who fought primary campaigns on the slogan "America can't wait" would doubtless have wanted it to have arrived sooner. But last Friday, after six months' hard wrangling, a version of Mr Clinton's deficit reduction package finally scraped its way out of the US Congress and into law. The deal, for all its flaws, should prove something of a landmark in recent American political history. But Mr Clinton must deliver a great deal more over the next three years if the same is to be said of his presidency.

Judged by its deficit-reducing credentials, the deal is not so different from the plan which Mr Clinton unveiled early in the year. It aims to reduce the US federal budget deficit by $496bn over the next five years by means of public spending cuts which net $255bn and tax increases of $241bn. Total tax revenues will rise by an estimated 0.8 per cent of gross domestic product in the 1998 fiscal year.

But much of the package's earlier novelty has been lost. First, the US administration has been forced, in effect, to drop its broad-based energy tax in the face of interest group pressure. The energy tax would have raised $71bn over five years and, in so doing, would have begun the necessary process of bringing US energy prices into line with those in other industrial countries. In its place, the Senate has sanctioned a rather paltry 4.3 cents rise in the tax on most transport fuels which will bring in a mere $24.2bn in extra revenue.

Earlier casualty

An earlier casualty was the new administration's plans for increased infrastructure spending. Mr Clinton had planned to boost spending on all forms of public capital. But US economists now estimate that US public investment will fall by 3.5 per cent this year. There is now nothing in the agreed package to reverse America's long-standing inability, by the standards of other industrialised countries, to maintain a large and healthy stock of public capital.

Missing, too, from the package is evidence that President Clinton knows how to translate his pre-election commitment to "putting people first" into post-election actions which enhance capital of the human variety. Instead, just when Europe's leaders are concluding that high labour taxes are bad for employment, Mr Clinton has fallen back on taxes on labour income to get his deficit proposals through – and looks set to do the same in its plans for reforming the US health system. The long-term solution to America's fiscal difficulties must involve some form of value-added consumption tax, not further taxes on employment.

Bigger cut

For all its deficiencies, Mr Clinton's bill should mean a bigger cut in the federal budget deficit than any of his predecessors have delivered. For all its ostensible similarities with President Bush's 1990 Budget Enforcement Act, the Clinton plan should do better, if only because it catches the economy on the way out of a recession as opposed to on the way in.

Nor is the strength of the US recovery likely to be seriously undermined by last week's bill – at least not once most consumers discover that their tax bills are little changed. If anything, Mr Clinton's legislative success should make the recovery more sustainable by keeping long-term bond yields at the historically low levels to which they fell in February when the package was first unveiled.

Yet, in the medium term, America's budget difficulties, and the political chasm they reflect, are not solved by the events of last week. However impressed the markets appear to be today, by 1998 the US structural budget deficit is projected to return to nearly 3 per cent of GDP and keep on rising thereafter.

Whether Mr Clinton is in the White House to see this will depend, in large part, on the strength of the recovery. But whether he will be judged a great president will depend on his ability not only to begin tracing solutions to America's looming structural problems – its bloated and ineffective social security and healthcare systems – but to persuade both Congress and the American people that his solutions make sense. Last week's victory marked a beginning. That so much political energy was expended for so little does not bode well.

War and peace in Bosnia

TWO MEETINGS today in two west European cities are supposed to decide the fate of Bosnia. In Geneva peace negotiations are to resume under EC and UN auspices, while in Brussels the North Atlantic Council (Nato's governing body) is to finalise plans for intervention in the war.

Is there a contradiction? Lord Owen, the EC mediator, appears to think so. At a press conference on Friday he blamed the threat of Nato air strikes for causing, or at least contributing to, a breakdown in the peace talks last week. He did not spell it out, but the reasoning is clear. The proposed peace is no longer based on any principle other than recognition of the relative strengths of the different parties to the war. Therefore anything that leads one side to believe its military situation may improve can only delay the peace. Mr Alija Izetbegovic, the Moslem president, hoped that Nato air strikes against the Serbs, or the threat of them, would improve his chances in the war. Therefore he left Geneva, to put off the moment of decision on peace.

Yet Lord Owen admits that the negotiations were already deadlocked on the future status and division of Sarajevo, the Bosnian capital; and there it was the Serbs who hoped to improve their negotiating position through military success. He also says that he needs air power "in reserve to prevent flouting" of agreements after they have been reached. It is as though he had forgotten the sad history of his earlier "Vance-Owen" peace plan. A great deal of time was spent discussing the forces to be put in place "to prevent flouting" of that plan once it was agreed. But it never was agreed, because the Serbs realised that so long as they did not agree to it no force would be used, and that so long as no external force was used their own forces could win them a more favourable settlement on the ground.

Divided city

Now the Serbs have got most of what they want, except in Sarajevo. They are determined, it seems, to incorporate at least a substantial part of the capital into their new ethnic state, although before the war the population was mixed, with a Moslem majority in every municipality. They were quite prepared to go on talking in Geneva while their artillery finished the job of breaking the city's resistance. Thus the logic of Lord Owen's position would lead him, in a few weeks, to put pressure on Mr Izetbegovic to accept the partition of Sarajevo, with presumably some kind of Berlin Wall cutting through the middle of it, while in the city itself thousands more people would be killed in house-to-house fighting and the UN would be helping evacuate tens of thousands of new refugees.

Use of force

For all the criticism of the Clinton administration's sometimes erratic policy on Bosnia, it is at least trying to prevent that outcome by pressing for the use of force. In the last few days Serb leaders have signalled a willingness to withdraw from recently taken positions overlooking Sarajevo. This is probably bluff or ruse, but it does suggest they take the threat of air strikes more seriously than they admit in public – and, one might add, more seriously than the threat deserves, given the well publicised reservations of Nato governments with forces on the ground.

The latter's anxiety is understandable, but the assiduity of British ministers in publicly proclaiming their fears is unpardonable. As it happens, British forces are the least vulnerable to any Serb retaliation, being in a sector where the main fighting is between Moslems and Croats. But Mr John Major and Mr Malcolm Rifkind do those forces no service by advertising their supposed vulnerability. They should simply say that British forces have the full power of the British state behind them, and that anyone who attacks them does so at his peril. Deterrence is more effective if the potential adversary is kept guessing about the scale and nature of the reprisal he should expect.

Nato's aim today should be to draw up a list of specific actions, by Serb or other parties in Bosnia, which would provoke military reprisal. By setting clear limits to the further use of force Nato would help, not hinder, a peace settlement which force has already done far too much to shape.

Coalition horse rides into town

Japan's new leaders have a rare opportunity to reform the character of domestic politics, says Robert Thomson

With a deep and graceful bow, Mr Morihiro Hosokawa paid tribute to the heavens for having chosen him as prime minister, completing a remarkable transformation of Japanese politics. His seven-party coalition had secured the rise of a new postwar generation of leaders, installed the first woman speaker of parliament, and condemned the powerful Liberal Democratic party (LDP) to the opposition benches.

These are evocative symbols of upheaval, but do they mark the beginning or the end of political change? An indecisive and disruptive coalition reign would invite the return of a strengthened LDP, now in opposition for the first time in four decades.

Mr Hosokawa and his partners stand on the fringe of uncharted political territory. They can secure the passage of electoral reforms and, as they put it, "reform political thinking", or be distracted by the differences inherent in a conservative coalition that includes a Socialist party and the political arm of a Buddhist movement, *Soka Gakkai*.

Political reform is the priority, but the hotchpotch of parties needs to respond coherently to a slowing economy and trade friction with the US. The coalition members disagree on the future of value added taxation and energy policy, and have been haggling over cabinet positions and bickering with the LDP over parliamentary procedure. The omens are not promising, but the coalition still has the benefit of the doubt at home and abroad.

Financial markets, for example, have taken the coming of coalition government calmly. Conversations and television programmes have been animated by the prospect of the LDP in opposition, and not by a perception that the country is on the brink of crisis. Other governments appear more curious than concerned, sensing that foreign and trade policies will hardly deviate from their present course.

If the coalition partners do keep their promises, there is potential for great deviation, not so much in the detail of present policies, but in the longer-term conduct of politics. Swapping multi-seat constituencies for single seats and proportional representation, and controlling political donations, will alter the electoral system, but the "revolutionary" changes pledged by the parties will come from increased transparency, deregulation and accountability.

Pro-reform parties in the coalition argue that, without these changes, Japan will be unable to develop an international profile appropriate to its economic influence. Mr Ichiro Ozawa, the former LDP power broker now in the backroom at the Japan Renewal party (JRP), a coalition partner, suggests that "Japanese-style democracy" has outlived its usefulness and the country must "reform our politics, our economy, our society, our consciousness".

The reputation of reform and of reformers in Japan rests with Mr Hosokawa and Mr Tsutomu Hata, who brought down the government by defecting from the LDP and is now the JRP leader. Echoing Mr Ozawa's lofty sentiments, Mr Hata talks of making parliament "a genuine forum for political debate" and turning politicians into "true representatives of modern Japan".

Mr Hata is in a position to prove that his statements are more than the puffery of an ambitious politician courting votes. He is likely to be either foreign or finance minister in the new government. At finance, he would preside over bureaucrats whose arbitrary use of "administrative guidance" gives them intimidating power over financial institutions and the interest rates on a Japanese worker's bank account.

For example, a reform committee of Japanese and foreign banks and brokers recently complained of unnecessary intervention by the finance ministry. It pointed out that no new financial products could be introduced in Japan unless they were specifically permitted; in most other markets, they could be introduced unless specifically forbidden.

The lack of transparency in government also enables politicians to influence the budget process in a way that benefits, for instance, the construction industry more than the average taxpayer. As still-emerging corruption scandals indicate, construction companies are encouraged to donate generously to politicians in return for a contract to build a bridge or to lay concrete on a river bed.

But corruption will not end suddenly with the rise of a pro-reform government. When in opposition, socialist MPs were able to influence public works contracts, directly or through the offices of well-connected LDP officials such as Mr Shin Kanemaru, the fallen godfather now on trial for evading taxes on monies received from construction companies.

'My lord goes to battle on an eight-legged horse' (Cartoon of Prime Minister Hosokawa reprinted from Yomiuri newspaper)

Mr Hosokawa, Mr Hata and their coalition colleagues can impose a tougher discipline. If politicians' powers of influence over contracts are reduced, the flow of contract-related funds will slow. The coalition wants to ban corporate donations to politicians, but a legislative amendment alone will encourage companies to find more creative ways of disguising illicit funding.

The depth of political change will also depend on the maturing of the coalition members. Theirs is a friendship destined not to last; but three parties, the Social Democratic party, Mr Hosokawa's Japan New party and the JRP, have the potential to combine into a powerful single party, competing with the LDP, which is still far bigger than its opponents. On the other hand, each could remain a bit player in a fragmented system that would take another election or more to sort out.

If the SDP, formerly the Japan Socialist party, is forced by coalition membership to reverse the more extreme policies that have kept it in opposition, it could emerge with a stronger identity than its conservative counterparts. If not, the SDP will be in danger of splitting, with more moderate members tempted to join the JNP or JRP and the more Marxist MPs retreating into isolation.

The JNP and JRP have an identity problem. Their ideas outnumber their policy details and they have yet to distinguish themselves clearly from the LDP. Ms Yuriko Koike, a successful JNP candidate, suggested during the election campaign the "people don't want detail, they want change", but, come the next election, repeated citing of the word "reform" may not be enough to attract voters again.

Having seen the tradition of one-party rule rejected, the LDP is beginning to play a useful, defining role as a powerful, belligerent opposition party, which is unusual in Japan. The selection of the relatively young Mr Yohei Kono, 56, as party president was a response to upheaval: he has a reputation as a reformer dating back to the mid-1970s, when he left the party in protest during another spate of corruption scandals.

The LDP cited Mr Kono's appointment as evidence of "generational change" and "reform", but other executive posts were distributed among the party's leading factions, suggesting that the old hierarchy remains influential and time-serving politicians are still awaiting a turn as prime minister.

Mr Kono is attempting to pre-empt these challenges. After his selection, instead of retiring to an exclusive bar for the customary whiskies and back-slapping with factional colleagues, Mr Kono did the rounds of leading television stations, launching his leadership and the campaign for the next general election. That election could come at any time.

The coalition has promised to introduce political reform within a year, and then call an election. But the seven parties have yet to agree on the details of reform. Ironically, a dispute over where to draw the new electoral lines could provoke a split and the fall of the government.

Japanese parties have an uncanny ability to tolerate incompatibility. The SDP often joins with the LDP and other parties to support consensus candidates in provincial gubernatorial elections. That past co-operation is the basis for the present awkward coalition government and could mean that the partnership has an unexpectedly long shelf life.

In the meantime, the coalition leaders have a chance to reform the character of Japanese politics. If they fail, a political structure battered by the events of the past few months could begin to return to a familiar shape, with a dominant LDP surrounded by a band of directionless opposition parties.

Rachel Johnson looks at the debate over primogeniture

And the eldest takes all

Not since the days of King Herod has it been so rough for firstborn sons. Last week, the Marquess of Bath decided to fight the court action of his father, the Duke of Marlborough, who is effectively trying to disinherit him; more than 30 peers have supported a bill to allow hereditary peerages to pass to the eldest child, regardless of gender; and increasingly, the landed gentry are giving their children equal slices of the inheritance cake.

It is remarkable that the seemingly anachronistic concept of primogeniture – whereby the eldest son inherits all – exists at all in a world of positive discrimination and Nintendo. In the words of Mr Nick Howard, second of the four scions of Castle Howard in Yorkshire: "It is the last refuge of feudalism."

This Norman law of inheritance lasted until 1925, when land legislation removed the right of the eldest to inherit all from an intestate parent by allowing the widow some chattels for herself.

Save for hereditary dignities and titles of honour, primogeniture no longer has legal force. Only hereditary peers list heirs in Who's Who. But primogeniture has remained a custom that aristocrats have observed unquestioningly for almost 1,000 years until this month's action in the High Court.

As Mr Lawrence Stone, professor of history at Princeton University in the US, points out, the "prime preoccupation of a wealthy English landed squire was somehow to contrive to preserve his family inheritance intact and to pass it on to the next generation according to the principle of primogeniture".

While wealthy squires' objectives have not changed, their methods may be about to. If the Duke of Marlborough wins, he will set a precedent that others will find hard to ignore. By demolishing the assumption that the eldest son should take over, he is subjecting the business of succession to commercial reality.

The duke wants to prevent his son from automatically inheriting Blenheim Palace and its 11,500 acres. He is so anxious that control of the estate should not fall to the marquess (who is being treated for drug addiction) that he is seeking to overturn the Act of Parliament of 1704 that gave Blenheim to his ancestor, the 1st Duke of Marlborough, in acknowledgement of his victories on the battlefield.

He wants a new trust to replace the present settlement. This trust would tightly control the sale of land, heirlooms and building on the estate. Nothing can prevent Jamie Blandford from taking his title, but someone else seems likely to act as duke in all but name.

The duke may then have saved Blenheim Palace for posterity. But what will he have done to the system that ensured he, and nobody else, became the 11th duke?

While Britain still has its great estates, many owners are struggling to keep them in the family

The money and land at stake is substantial. Primogeniture helped the British aristocracy remain richer, more illustrious and tightly knit than any other comparable elite. Today, the heir-takes-all tradition still pays dividends: a British farmer's average landholding in 1992 was over 70 hectares, more than five times the EC average.

Between them, the 24 non-royal dukes, from Abercorn to Westminster, are worth an estimated £4.5bn in income and assets – three-quarters of that belonging to the Duke of Westminster. Mr Dominic Hobson, the financial historian, says this compares with a total of £3.5bn in 1883 (at 1991 prices and only from rental income).

By contrast, continental aristocrats have become so common that their prestige is diminished; and the parcelling of land elsewhere in Europe has diminished estates.

In France, in particular, the post-revolutionary Code Napoléon – which revised common law – demanded that land be divided equally between children. While this meant that most of the peasant class owned plots of land, farms were small and France was unable to benefit as much as Britain from new farm machinery.

But while Britain still has its great estates, many owners are struggling to keep them intact and in the family. Some have failed: between 1880 and 1976, the great estates shrank in size by 76 per cent in England and Wales. Estate duty, followed by capital transfer tax in 1975 and inheritance tax in 1986, have forced the sale of 480 historic houses in the past 20 years.

Even when a son inherits cash – the Marquess of Cholmondeley was left £116m – it does not stop the rot. He was forced last year to sell a Gainsborough and Holbein in lieu of tax on his father's estate.

Primogeniture, designed as it is to keep the estates intact, is destined to continue. Lady Ann Somerset, the historian daughter of the Duke of Beaufort, cousin to Blandford, thinks it should and will survive. "Only really rigid primogeniture – where the eldest gets masses and millions and the others get not a farthing – will be rare," she says.

"Provided the younger ones aren't cast out into the world, it's fair. Really, the estate can't continue if it's all shared out."

But Mr Nick Howard, of Castle Howard, a second son, predicts that the "flexible primogeniture" will be the way of the future. "These large estates are businesses," he says. "And not all eldest sons make the best businessmen."

OBSERVER

Turn down the flame

■ An eerie hush has settled over the UK gas industry – quite a change from the fierce clashes of the past between British Gas and Sir James McKinnon, its regulator at Ofgas. A truce has been called while both sides digest the mammoth 2,000-page Monopolies and Mergers Commission report, which was delivered 10 days ago.

The air of studied unconcern is reinforced by the fact that Sir James has departed for the Italian beaches, while Cedric Brown, chief executive of British Gas, has sought out the charms of Cornwall. So anxious are all parties to prevent leaks of this highly sensitive document that it will be rushed into print a week tomorrow before ministers have even decided whether to accept it.

Unusually, Observer gathers, the MMC itself will make a statement next week explaining how it reached its conclusions. This is because there are actually two reports, one commissioned by the DTI and one by Ofgas.

Sir James and trade secretary Michael Heseltine have agreed to exchange theirs so they know the contents of both – which is more than can be said for British Gas itself. Cedric Brown has only received the Ofgas report, and he does not get the DTI one until next Monday. But he will have an inkling of the full report because his copy contains a summary of all the MMC's recommendations. He promises to be on hand next week to deliver his views on the report, but Sir James will not be breaking short his holiday.

Is this because the MMC has rejected his contention that British Gas should be split up? After battling for years against the gas monopoly, it would be most uncharacteristic of this doughty Scotsman to be absent if the MMC had handed him a famous victory.

Law maker

■ Contrary to expectations, the recent death of Professor Northcote Parkinson, best remembered for his pronouncements of the blindingly obvious, has not curtailed the supply of new Parkinson's laws. Yesterday, Lord Parkinson, the former Tory party chairman, produced one of his own on Anthony Clare's radio programme, In the Psychiatrist's Chair: "In politics people like to give you what they think you deserve and deny you what they think you want."

Ex-lifeboat man

■ History seldom repeats itself with such vengeance as it has recently for Roger Barnes, the head of banking supervision at the Bank of England who retires this month.

'I hope we're found soon, I'm all in escudos'

One of his earlier jobs was as secretary of the Lifeboat Committee, which ran the rescue operation for Britain's secondary banks in the crisis of the mid-1970s. Among the first to grab a lifeline was First National Finance Corporation, which received support of some £350m. In recent months Barnes has found himself repeating the exercise with FNFC, negotiating behind the scenes to push the bank's most recent creditors to accept a £1.1bn refinancing. But, this time, he has had the deadline of retirement looming.

This may go some way to explaining his decision to cut through the red tape. Indeed, one particularly obstreperous foreign creditor was amazed to receive approval for the refinancing from head office before it had even submitted the application. Someone had got there first.

Upon being informed of the event, Barnes is said to have thrown his hands in the air and claimed: "It's a miracle!"

Falling standards

■ Never before has John Major, leader of Britain's least popular big political party, spoken so frankly about his thoughts on everything from formula one grand prix racing to Britain's female cricketing team and the rush to buy new L-registered cars.

In happier times, the prime minister's column in yesterday's News of the World might have been tagged a world exclusive. However this label was reserved for fresh insights into footballer Paul Gascoigne's love life. It is not the first time that down-at-luck Tory politicians have tried to communicate with the masses by standing in for regular NoW columnist, Lord Woodrow – voice of reason – Wyatt.

Indeed, Lady Thatcher once did it. But it is hard to believe that she would have allowed her contribution to be upstaged by a tubby footballer's reminiscences of how a "chocolate Teddy girl tried to tempt me from my Sheryl".

Meanwhile, Observer hopes that Norman Lamont, former chancellor of the exchequer, will be given a chance of using the NoW to get a few things off his chest before his old chum Lord Wyatt returns on September 5.

Up the Pole?

■ If the choice of the next president of the European Bank for Reconstruction and Development was in the gift of newspaper leader writers, then 46-year-old Leszek Balcerowicz, the former Polish finance minister, would already have the job. First the New York Times and now The Economist have come out strongly in favour of the man credited with knocking the Polish economy into shape.

Given that Balcerowicz served less than three years in the political frontline as Poland's finance minister, he may lack some political savvy and, on paper at least, his management skills look no better than those of the EBRD's ex-boss, Jacques Attali. That said, for a man with no obvious public relations skills, Balcerowicz seems to be doing a jolly good job getting his message across.

If only

■ Spotted in the parish magazine of Crockerton and the Deverills: "The PCC meeting on Thursday will be gin with a prayer."

FINANCIAL TIMES
Monday August 9 1993

Call from Israeli-occupied territories for more say in PLO decisions

Palestinians face leadership split

By Julian Ozanne in Jerusalem and James Whittington in Amman

A CRISIS simmering among the Palestinian leadership boiled over yesterday as three of its *senior members flew to Tunis* amid reports that they intended to resign from the Middle East peace talks delegation.

The move, which would threaten the flagging Arab-Israeli peace process, revealed old divisions between Palestinian leaders inside the Israeli-occupied territories and the Tunis-based Palestine Liberation Organisation led by Mr Yassir Arafat.

It also exposed deep frustration about the lack of progress in the *peace process after the visit to* the region last week by Mr Warren Christopher, US secretary of state, and the increasing desire of Palestinians in the occupied territories for greater democracy inside the PLO.

In Israel, the move re-ignited debate about whether the government should open official contacts with the PLO – one of Israel's greatest political taboos but recently under review.

Mr Haidar Abdel-Shafi, chief Palestinian negotiator, said the three top leaders – Mrs Hanan Ashrawi, Mr Faisal Husseini and Mr Saeb Erekat – were going to hand their resignations to Mr Arafat because of differences with the PLO leaders on how best to conduct talks with Israel.

During a transit stop in Amman, Mrs Ashrawi refused to confirm the resignation threat but said there were "serious internal Palestinian issues" that *had to be discussed "frankly" in* Tunis. Reflecting reports that the three leaders are upset about lack of consultation by Mr Arafat over recent positions presented to the US, Mrs Ashrawi said: "There is a two-way street of consultations and discussions."

Mr Ziad Abu Ziad, a consultant to the Palestinian delegation, said the latest rift occurred over a PLO-drafted response to Mr Christopher's suggestions for an *interim period of Palestinian* self-rule. The Palestinian delegation in Jerusalem rejected the document and were upset that the PLO draft had been put to Mr Christopher in Egypt before they were consulted.

Even so, much deeper problems lie behind the latest issue. Palestinian leaders in the occupied territories have said recently that their ability to negotiate with Israel has been completely restricted by Mr Arafat, who *remains the dominant decider.*

They accuse Mr Arafat of pursuing a strategy of remaining in the peace process without allowing substantial progress. They say he is afraid such progress could lead to the development of alternative Palestinian leadership in the occupied territories during interim self-rule and thus could marginalise the PLO in Tunis.

Mr Arafat, they add, wants to show Israel and the US that there *can be no settlement without the* direct involvement of the PLO in Tunis. This strategy leaves the Palestinian negotiators vulnerable to criticism by Palestinians who are increasingly *angry about* the lack of progress and Israel's continued abuse of human rights.

Some Israeli politicians now feel that the PLO in Tunis is more moderate and coherent than Palestinians in the occupied-territories, and that the PLO should be brought into the talks. Last week, it was revealed that Mr Yossi Sarid, the environment minister, became the first Israeli cabinet minister publicly acknowledged to have met PLO officials.

US calls for action over Somali attack

By Roger Matthews in Washington and Michael Holman in London

PRESIDENT Bill Clinton yesterday condemned a Somali attack that killed four US soldiers in Mogadishu and vowed "appropriate action" against those responsible.

He said the US would do everything *it could* to find out who was responsible but stressed Washington would "proceed through the UN as our troops are there are part of the UN."

Mr Clinton defended the UN mission, saying it had averted mass starvation and enabled food and medicine to reach Somalia. "I still believe the United Nations mission was well-conceived and properly undertaken," he said.

However, the ambush, the third in four days on troops of the UN peacekeeping force, prompted fresh demands in Washington led by Senator Robert Dole, the Republican leader, for a re-examination of the US *role in Somalia. The landmine* ambush resulted in the highest US death toll in a single incident since American troops arrived in Somalia in December to safeguard relief supplies and end the reign of warlords. Yesterday's deaths brings US fatalities to six.

The UN special representative in Mogadishu, retired US admiral *Mr Jonathan Howe, yesterday* blamed followers of the fugitive warlord Mohamed Farrah Aideed - sought by the UN force since 24 Pakistani peacekeepers were killed in an ambush in June – for the incident. "We will take appropriate action to ensure we defend our people," Mr Howe said.

Senator Dole said it was time for the administration to reassess US participation in UN operations. Asked if the troops should be withdrawn, he said: "The time may be close."

He recalled that more than 35 UN troops had been killed in Somalia and thought that pressure on President Bill Clinton to *call an end to US participation* in the operation would increase.

Mr Dole said it was the view of other senators that the peacekeeping operation had strayed from its original purpose of providing humanitarian assistance.

However vice-president Mr Al Gore yesterday ruled out an *immediate withdrawal of US* forces: "We have got a mission there and we are going to continue it."

Mr Gore said the administration would be consulting its allies to decide on the appropriate response to the attack.

Hosokawa on the doorstep

New Japanese PM looks to put official house in order

By Robert Thomson in Tokyo

ELECTED ON a promise to renovate Japanese politics, Mr Morihiro Hosokawa, the new *prime minister, was contemplat*ing yesterday what to do about the furniture, the wallpaper and the apparently dodgy plumbing in the house that comes with the job.

"It will need a bit of work," he said, after taking his wife Kayoko on a quick tour of the home. What has suited past Liberal Democratic party prime ministers is not to the taste of a more fashion-conscious first family, as Mrs Hosokawa *thought* the place "really very old".

The Hosokawas were satisfied that the 64-year-old residence is "large enough", perhaps mindful of the space needed to entertain fellow members of a seven-party coalition government which is due to announce a cabinet today *and be formally installed by* Emperor Akihito.

Unlike the selection of LDP cabinets, which were generally a matter of long-serving politicians taking their turn in a ministry, the Hosokawa cabinet was unknown last night. Talks were continuing last night to balance the interests of the seven parties.

But the lack of early detail on *the cabinet also reflects the lim*ited access the Japanese media have to some coalition leaders. Leading newspapers were geared to LDP rule and had committed dozens of journalists to staking out MPs, but they don't have the same links to Mr Hosokawa, a former provincial governor, and other newcomers to government.

The cabinet is being described as the "all-star team", as the seven party leaders are all supposed to be *given a post, and* there are likely to be one or two academics or other specialists chosen for posts such as education or culture minister.

It is expected that Mr Tsutomu Hata, leader of the Japan Renewal party, will be deputy prime minister and either for*eign or finance minister. Mr* Akio Morita, chairman of Sony, the consumer electronics company, was a favoured contender last week for foreign minister, but appears to have missed out.

Mr Sadao Yamahana, leader of the Social Democratic party, formerly the Japan Socialist party, is likely to be a "minister responsible for political reform", *a difficult post, as many MPs in* his own party are opposed to electoral reforms that could cost them a place in parliament.

While Mr Hosokawa has been musing about his cabinet and the new home, Japan's bureaucrats have continued to do things their way. Without consulting the new administration, finance ministry officials are telling other ministries that spending in next year's budget *will increase by only 3 per cent.*

The ministries are supposed to present their spending plans to the finance ministry by the end of this month, and appear to be ready to continue the plans made under LDP rule. If Mr Hosokawa has different spending priorities or cuts income taxes, as has been *hinted, the bureaucrats will have* to do their calculations again.

Torrential rain, Page 4
Coalition horse rides into town, Page 11

Major's 'hard Ecu' proposal

Continued from Page 1

might try and accelerate progress towards full monetary union in the wake of the crisis.

The credibility of the ERM may be tested again this week as *France, Denmark and Belgium* continue to keep their currencies closely tied to the D-Mark by maintaining overnight interest rates in their domestic money markets at very high levels. Some dealers believe that the policy of keeping interest rates high will not be sustainable because of high unemployment.

The hard Ecu project envisages the launch of a pan-European currency whose pace would keep *with the value of the strongest* European currency at all times.

If the new currency became popular, it would gradually replace the use of national currencies as legal tender. If not, the currency would be allowed to die.

However, economists were *sceptical as to whether Britain's* EC partners would adopt the idea. Mr Brian Hilliard of Société Générale Strauss Turnbull said the project would involve considerable costs.

THE LEX COLUMN

Budget performance

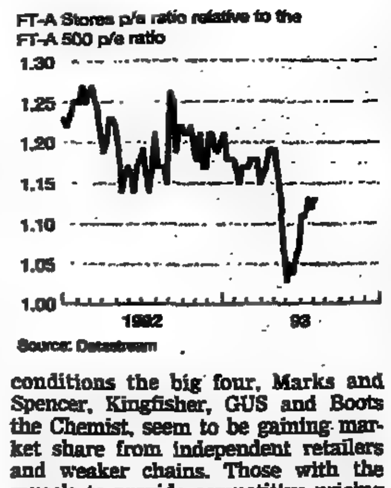
US government long bond yields around 6.5 per cent hardly suggest that the markets are bothered by the Federal government's budget deficit. President Clinton, however, may be making a mistake when he claims credit for the bond market's recent strength. US growth is still very sluggish and, despite an uptick in the second quarter, inflation is subdued. That is probably more responsible for low *bond yields than the president's deficit* reduction package. Besides, the national debt and the size of the budget deficit as a proportion of GDP hardly stand out against other OECD countries.

What is more worrying is the way that the politicians have struggled so mightily to bring forth such a weak compromise. Passing the bill was certainly important, given that Mr Clinton had invested so much political capital in it. Yet even on the government's own figures, the deficit will *still be $250bn by 1998, and spending* will have risen by 20 per cent – always supposing that expenditure estimates are not exceeded in the way they have been in the past. To be sure, the markets would have responded very badly had the vote failed, and the president's authority been significantly weakened. Now it has passed, the focus will be on *slow growth.*

With little sign of the recovery gathering pace, Treasury bonds may well rally further. Equities may also benefit. For those still prepared to overlook the monotonous regularity of exceptional charges in US company results, there is little reason to suppose that equity prices are stretched beyond the *limit.*

UK stores

FT-A Stores p/e ratio relative to the FT-A 500 p/e ratio



Source: Datastream

UK stores

It does not take much to tickle a fund manager's jaded palate. Some reasonable retail sales figures, a spurt in the circulation of folding money, and a whiff of interest rate cuts from across the channel is enough to have professional investors switching into UK consumer stocks in the hope of a boost to domestic consumption. Certainly macro-economic forecasts suggest that consumer spending will rise faster now the ERM has gone. There are also worries that the capital goods and export earning companies which have led the market's charge since sterling's exit from the ERM may not look quite so glamorous once their interim figures arrive in September.

In the short term some stores do hold attractions. Despite tough trading conditions the big four, Marks and Spencer, Kingfisher, GUS and Boots the Chemist, seem to be gaining market share from independent retailers and weaker chains. Those with the muscle to provide competitive pricing and *value are gaining sales* without damaging margins. That squeezes those chains which are stuck with a cycle of seasonal sales to shift stock which will not sell at full margins.

Further out, however, there are worries. The November Budget can only depress consumer confidence, even if some of the more aggressive tax *increases are avoided.* Consumer perceptions of value will continue to limit the ability to increase margins and the threat of discount formats remains on the horizon. The advocates of Every-day Low Pricing may have the right tactics for the market, but it is hardly a way to get rich quick.

Reuters

Those French politicians who complain about the Anglo-Saxon conspiracy to destroy European monetary union may wish to hedge their position by buying Reuters' shares. The company's rapidly advancing share price performance highlights the market's belief *that Reuters will gain from* currency turmoil. The connection is not immediate since the bulk of Reuters' forex trading screens generate their income from subscription fees rather than transaction charges. But the hope is that banks, which have been running down their European forex operations, may build them up again if the likelihood of monetary union recedes. Reuters would then install more screens. After several years of static installations, Reuters *would return to the growth path.*

The theory, though, is somewhat spurious. Despite the recent beating, the concept of a single currency may be far from dead. Moreover, any likely rise in demand for screens would be marginal set against the 200,000 screens Reuters already has installed. Nevertheless, the market's instinct may prove right over the longer run. The infant Dealing 2000 forex trading system, which appears to be gaining critical mass, produces $25 of income for every deal transacted. Here, volume will clearly be critical for profitability. The product, though, will not contribute significantly to profits for a few years yet. By then, Reuters hopes *that even if European foreign* exchange trading quietens down, there will be increased trade between the world's more exotic currencies.

Switzerland

The collapse of the ERM looks likely to take some of the shine off the Swiss equity market. Its safe haven status has helped it rise by a third over the past year, but now other European markets may outperform as interest rates come down. Switzerland has to a large extent already enjoyed the relaxation that is expected elsewhere. Short-term rates are only about one point above the 3.4 per cent inflation rate. So the Swiss National Bank has less room for manoeuvre than, say, France. It may do little more than follow German rates down, which suggests a strong Swiss franc may dampen domestic recovery prospects.

Some local factors also point to a period of consolidation. Nestlé's share price has finally become caught up in *the international anxiety over brands;* there is a risk that the banks, in which the market has invested a lot of hope, may disappoint at this interim stage. It would be a mistake, though, to take this argument too far. The Swiss market's long climb has been sustained by fundamental undervaluation as well as its safe haven status. *The former consideration remains* valid.

Consensus expectations for earnings growth of about 17 per cent this year put the market on a forward multiple of around 12, which makes it cheap by international standards. And it is not as if interest rates were actually about to rise. The safe haven advantage may even return if other European governments compound currency uncertainty by delaying interest rate cuts. Swiss equities can still scale new *peaks, but it will require a little more* exertion than before.

FT WORLD WEATHER

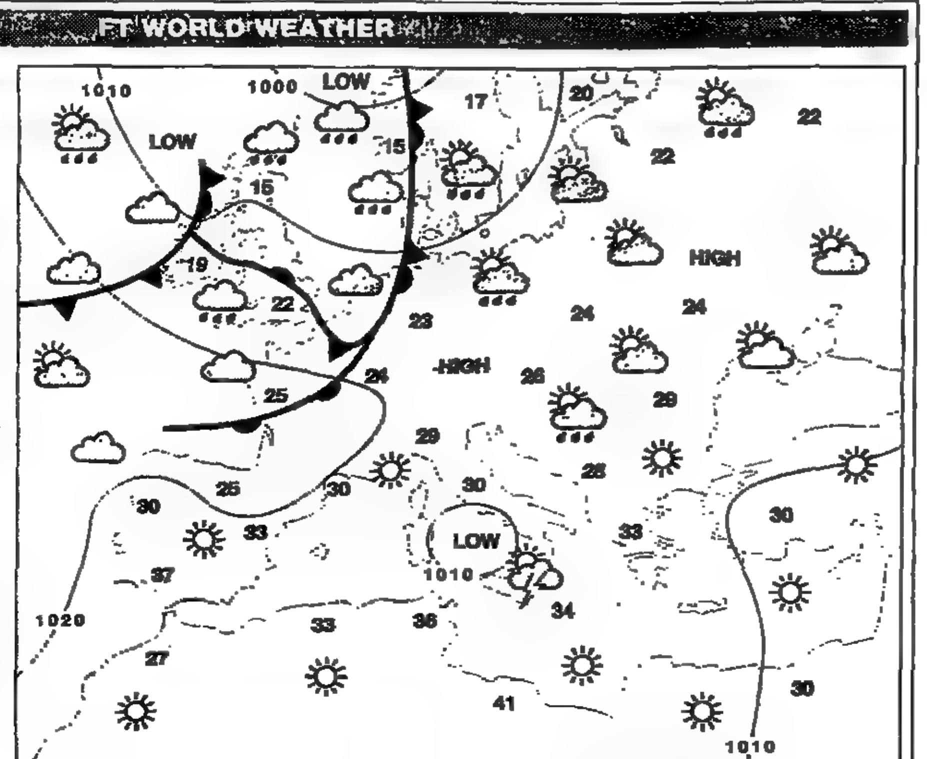
Europe today

It will continue sunny and warm around the Mediterranean, however, isolated thundery showers may develop over central and southern Italy and around the Adriatic Sea. Depressions approaching from the north-west will begin to bring cooler air into western Europe. Ireland and parts of England will have rain with falling temperatures. Southern England and western France will remain in relatively warm and moist air that has arrived from the south-west. Despite cloudiness, *temperatures will rise up to 22C-25C in these* regions.

It will continue unsettled with rain in Norway, Denmark and southern Sweden. In Finland and central Sweden, it will be dry with some sunny spells.

Five-day forecast

Vigorous depressions will move into Scandinavia from the west causing unsettled, cool and occasionally windy weather in north-west Europe. There will be more sunshine in southern France, Germany and in the Alps, with temperatures remaining above normal. However, *there will be an increasing* risk of thundery showers during the week. The Mediterranean will continue to be sunny and warm.



Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	43
Accra	thund	27
Algiers	sun	33
Amsterdam	cloudy	19
Athens	sun	33
Bangkok	rain	33
Barcelona	sun	29
Beijing	cloudy	31
Belfast	rain	19
Belgrade	shower	27
Berlin	thund	23
Bermuda	fair	31
Birmingham	drzzl	21
Bogota	sun	19
Bombay	rain	28
Bordeaux	fair	26
Brussels	drzzl	20
Budapest	thund	27
Buenos Aires	cloudy	9
Cairo	sun	36
Cape Town	sun	22
[illegible]	sun	30
Chicago	sun	31
Cologne	shower	21
Copenhagen	shower	20
D' Salaam	cloudy	29
Dakar	fair	32
Dallas	fair	37
Darwin	sun	32
Delhi	fair	34
Dubai	fair	42
Dublin	rain	21
Dubrovnik	thund	31
Edinburgh	shower	19
Faro	sun	28
Frankfurt	fair	24
Geneva	sun	23
Glasgow	shower	19
Hamburg	shower	20
Helsinki	fair	19
Hong Kong	shower	32
Honolulu	fair	31
Isle of Man	rain	19
Istanbul	sun	30
Jersey	drzzl	22
Karachi	cloudy	33
Kuwait	sun	45
La Paz	thund	21
Las Palmas	fair	28
Lisbon	sun	31
London	drzzl	24
Los Angeles	hazy	29
Luxembourg	drzzl	20
Lyon	sun	23
Madeira	fair	25
Madrid	sun	34
Majorca	sun	33
Malta	fair	36
Manchester	rain	20
Manila	rain	29
Melbourne	windy	12
Mexico City	thund	22
Miami	fair	31
Milan	fair	29
Montreal	sun	27
Moscow	fair	22
Munich	fair	24
Nairobi	shower	22
Naples	thund	32
Nassau	fair	32
New York	sun	31
Nice	sun	27
Nicosia	sun	37
Oslo	rain	17
Paris	cloudy	23
Perth	fair	14
Prague	fair	23
Ri' de Janeiro	shower	24
Rangoon	rain	29
Reikjavik	shower	12
Riyadh	fair	44
Rome	shower	30
S' Francisco	sun	22
Seoul	rain	25
Singapore	shower	32
Stockholm	fair	20
Strasbourg	fair	25
Sydney	fair	14
Tel Aviv	fair	34
Tokyo	rain	24
Toronto	cloudy	26
Tunis	fair	36
Vancouver	fair	21
Venice	fair	28
Vienna	thund	26
Warsaw	thund	24
Washington	sun	30
Wellington	cloudy	11
Winnipeg	sun	28
Zurich	sun	23

FINANCIAL TIMES
COMPANIES & MARKETS

Monday August 9 1993

INSIDE

Swissair's loss grows as talks continue

Swissair, the Swiss national airline, said its first-half loss widened to SFr125m ($82.7m) from SFr116m as operating conditions worsened considerably. The airline is in negotiations with KLM Royal Dutch Airlines, Scandinavian Airlines System and Austrian Airlines aimed at merging activities. Page 15

Shake-up in Swedish building

The planned merger of Tre Byggare and BPA is set to form Sweden's third-largest construction group in a significant rationalisation of the country's hard-hit building sector. Malmo-based Tre Byggare is buying a majority stake in BPA from a group of trade unions. Page 15

Call of the mainland

Taiwanese business is growing impatient at the brakes that have been placed on commercial links with China by the nervous authorities. The concern of Taiwan's rulers is that a lifting of restrictions, including permission for direct trade and travel, would accelerate a business exodus and drain investment away from Taiwan. Page 15

Tense week for Spring Ram

Shareholders in Spring Ram, the UK bathrooms and kitchens group, face continuing uncertainty after a week of inconclusive bid talks and growing boardroom tension. The leaking of a meeting between Masco Corporation, the US building products group, and Mr Roger Regan, Spring Ram's new chairman, has not helped the relationship between Mr Regan and supporters of Mr Bill Rooney, co-founder and former chairman who is continuing as chief executive. Spring Ram said Masco returned to the US without making any offer. Page 14

Bond dealers braced in Italy

Italy's bond dealers are wondering whether the week to come will match the one that has just passed, when investors ploughed into Italian paper to lock into relatively high yields ahead of expected interest rate cuts. The market was at its most active for months, with prices and volumes for 10-year futures rising particularly fast. Page 16

Prospective p/e ratio

The latest prospective p/e ratio for the "500" index for calendar 1993 is 15.0, according to IBES, the consensus estimates service (last week: 14.6). This compares with an IBES estimated p/e for the "500" of 19.7 (19.3) for calendar 1992. The official FT calculation of the historic p/e, based on the latest reported earnings, is 19.75 (19.48).

Richard Lapper and David Waller report on upheavals in German insurance

A liability to get worse

Allianz's international competitors may have breathed a sigh of relief when Europe's largest insurance company reported its 1992 results.

For the first time in more than 20 years the group lost money – some DM400m (£156m) – on its insurance operations in the traditionally profitable German market. Allianz's after-tax profits were down by 18.1 per cent to DM857.9m and overall underwriting operations remained in deficit for the second year running.

After a long period of relentless expansion, Allianz's difficulties reflect the radical changes affecting the traditionally stable, heavily regulated and highly profitable German insurance market.

German insurers have long enjoyed wide margins on home, motor and life policies, paying out less in claims and expenses than they receive in premiums. But this has begun to change as a result of several factors:

● A sharp increase in car thefts since the opening of borders with eastern Europe and German reunification in 1990. Some 87,000 cars were stolen in 1991, rising to more than 130,000 last year. Allianz's losses from theft rose by 15-20 per cent in the first quarter of this year.

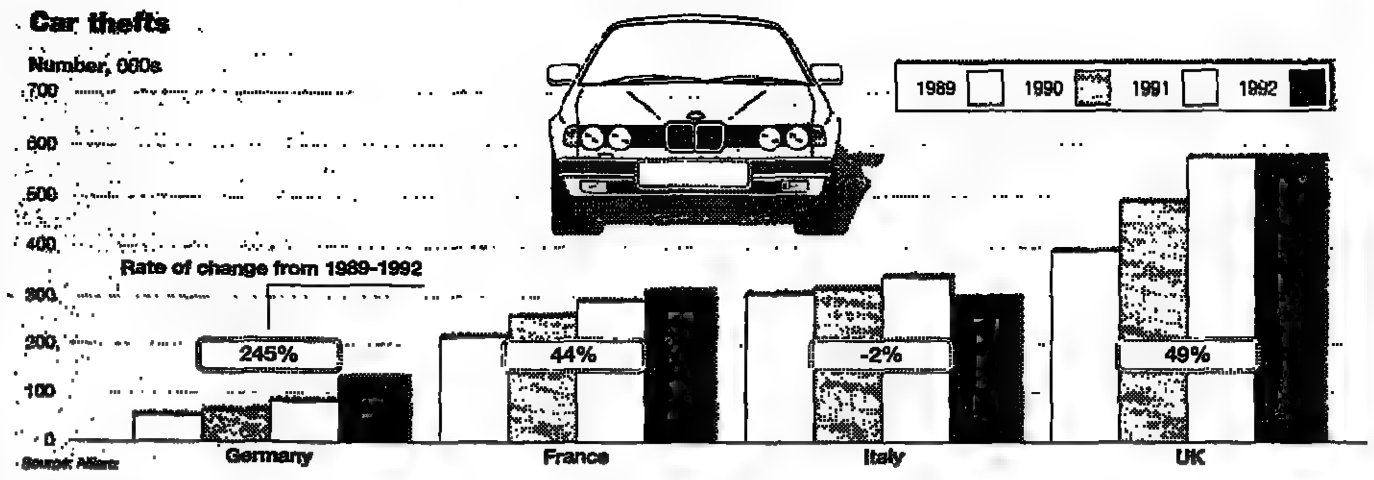
● Volatile weather patterns. Storm losses at Allianz totalled DM200m in the first six months, up more than 40 per cent. One hail-storm alone, which swept across southern Germany, cost the company DM60m in claims.

● The cost of expanding eastwards. Allianz moved into eastern Germany with the DM711m acquisition of Deutsche Versicherungs, the former state insurance monopoly. Losses are expected to mount to DM1.5bn before the acquisition starts to make a profit in the latter half of the decade. Other German companies are also incurring heavy losses as they build up operations in eastern Germany from scratch.

● Increased competition from banks. As in other countries, German banks have diversified into insurance on the assumption that the distinction between banking and life insurance products is narrowing. Deutsche Bank set up a life insurance company in 1989 and has since acquired stakes in Deutsche Herold, a life insurance company, and Gerling, one of Germany's larger industrial insurers.

The pressures will intensify next year. By July 1994, the European Commission's single market programme will allow insurers from all EC states direct access to each other's markets. At the same time, new European rules will force the German supervisory authorities to scrap restrictions on both prices and policy wordings. Motor liability business and life business will be directly affected by the changes, but anlysts expect competition to become more intense in other classes too.

These changes should present opportunities for international competitors to increase their share of the German market from their current 13 per cent. Already foreign companies are seeking to take advantage. In particular, France's two largest insurers – Union des Assurances de Paris (UAP) and Assurances Générales de France (AGF) – are keen to expand in Germany as part of their broader European ambitions.



UAP – through its 34 per cent holding in Victoire – owns a sizeable minority stake in Colonia, Germany's third biggest insurer, and is seeking to increase it. Recently AGF, the second largest state-controlled French company, acquired a 33 per cent stake in Aachener und Münchener Beteiligungs (AMB), the second biggest insurance group in Germany.

"Any major insurer with a pan-European strategy would like eventually to have a position in Germany because it is Europe's largest country and because it is perceived to be a good place to expand from into eastern Europe," says Mr Stephen Dias, an analyst with Goldman Sachs.

Allianz's senior executives appear unruffled by the market turbulence and the threat of increased competition.

Mr Uwe Haasen, head of German operations at Allianz, concedes that 1993 will be another tough year with losses in Germany running at a high level in the first six months. But he is confident that this will prove to be a temporary dip.

Most securities analysts covering the company's fortunes agree, arguing that a number of factors will shield Allianz from the impact of greater competiton. First, its 17 per cent share of the German general insurance market is nearly three times greater than that of its closest rival, the Colonia Group – and is one of the reasons it enjoys lower costs. In Germany Allianz's expense ratio, which measures costs as a percentage of premium income, amounts to 21 per cent, several points less than most of its competitors not only in Germany but in the broader European market.

Unlike many of its UK rivals who distribute their products through independent brokers, Allianz also controls its sales outlets. Its network of 8,000 full-time and 40,000-50,000 part-time exclusive agents, helps it retain customer loyalty and makes it difficult for competitors to take market share. Allianz retains 90-95 per cent of its customers each year, compared with 75-80 per cent for UK companies.

Allianz's property and financial assets – often valued at the cost at which they were acquired rather than their present market value – represent a huge store of hidden wealth. Mr Tom Bennett, analyst with Banque Paribas Capital Markets, estimates that unrealised capital appreciation on Allianz's 25 per cent holding in Munich Re, Germany's largest reinsurance company, exceeded DM1.1bn last year.

And unlike some of its German competitors, Allianz has already begun to reorganise its operations to adjust to the expected increase in competition. At the beginning of 1992 Allianz announced a reorganisation of its business on the basis of customer types: individual customers; small businesses; multinational businesses.

Finally, following its rapid expansion abroad in the late 1980s, Allianz is no longer so dependent on its domestic market. In 1992 subsidiaries in the US, the UK, Italy, France and elsewhere generated nearly half of the DM54.7bn premium income. More recently it has begun to move into Asia, announcing a joint venture with the Japanese retail company, Nichii, to sell personal accident and liability insurances in 50 department stores from the autumn.

Premium income is expected to grow to more than DM60bn in 1994, with general business now as large as the four biggest UK insurance companies together. It looks as though, even with the problems of the German market, there will be little respite for Allianz's rivals.

Funds set sights on European shares

By Sara Webb

EUROPEAN equities, and French shares in particular, have seen a surge in popularity among UK fund managers, according to the latest Smith New Court/Gallup Survey of fund managers released today.

A balance of 37 per cent of fund managers questioned in themonthly survey said they planned to increase their holdings in European equities, compared with only 13 per cent in the July survey. The balance of fund managers refers to the difference between those institutions who are bullish and those who are bearish about a market.

The sharp rise in the popularity of European equities probably stems from the recent shake-up of the European exchange rate mechanism, seen as paving the way for official interest rates to tumble across continental Europe, which investors hope will stimulate economic recovery.

On the European front, 87 per cent of fund managers said they preferred French equities to German ones as an investment.

Meanwhile, a balance of 33 per cent of managers said they intended to raise their weightings in UK shares, up from 12 per cent in July. A much higher proportion of fund managers now think that the outlook for the UK economy over the next 12 months is brightening.

Expected earnings per share growth for 1994 has jumped from 14.4 per cent to 15.7 per cent.

Institutional investors have lowered their inflation forecasts, predicting that the Retail Price Index will be 2.7 per cent by the end of 1993 and 3.7 per cent by the end of 1994.

On the fixed income side, a balance of 11 per cent of fund managers said they would decrease their holdings in gilts, compared with 1 per cent the previous month, and a balance of 7 per cent said they would decrease their holdings in overseas bonds and deposits, whereas a balance of 3 per cent planned to increase exposure last month.

According to the survey, pension fund assets are allocated as follows: UK equities, 58 per cent; US equities, 6 per cent; European equities, 8 per cent; Japanese equities, 5 per cent; other equities, 5 per cent; UK gilts, 6 per cent; UK property, 4 per cent; UK cash, 3 per cent; overseas bonds and deposits, 3 per cent; index-linked gilts, 2 per cent.

French stores tot up the impact of recession

By Alice Rawsthorn in Paris

GALERIES Lafayette, La Redoute and a number of other leading French retail groups have highlighted the depressed state of the retail sector by announcing falls in sales for the first half of the year.

French retailing has come under intense pressure in recent months as the economy has slid into recession.

The reductions in interest rates since the March parliamentary elections have so far failed to stimulate consumer spending. Confidence is still weak because of the continuing rise in unemployment.

As a result, many large retail groups saw sales fall in the first six months of the year. Galeries Lafayette, the department store concern, reported a 7 per cent reduction in sales from FFr14.87bn ($2.52bn) in the first half of 1992 to FFr13.8bn. The group has been affected not only by the French recession but by problems at its flagship store in New York.

Monoprix, a chain of mixed merchandise stores belonging to the Galeries Lafayette group, also registered a fall in interim sales. Its turnover slipped by 5.7 per cent from FFr4.97bn in the first half of 1992 to FFr4.68bn.

La Redoute, the dominant player in the French mail order market, saw its sales decline by 3.6 per cent from FFr8.91bn to FFr8.58bn.

BHV, whose interests include a famous store beside the Hôtel de Ville in Paris, suffered a reduction in first-half sales of 6.7 per cent to FFr1.75bn from FFr1.88bn.

The news of these falls in sales, which reflects a generally gloomy trend in the French industrial and service sectors, comes at a turbulent time for French retailing. Strains on the sector have triggered a stream of takeover activity.

Concentration of ownership has increased as large groups, such as Pinault-Printemps, Carrefour and Galeries Lafayette, have expanded by acquisition.

Similarly, a number of new players have surfaced in French retailing, notably Tesco, the UK food retailer which took over Catteau supermarkets, and Kingfisher, the UK group that now owns the Darty electricals chain.

Tax fears put blight on US budget relief

President Bill Clinton's long-awaited deficit reduction act has, at last, scraped its way through both Houses of Congress. But, despite the palpable sighs of relief in Washington at the weekend, some economists fear that his plan could deliver the worst of both worlds.

Their worry is that the revenue-raising credentials of Mr Clinton's seemingly dour package of tax increases and spending cuts have been over-sold: the promised cuts in the US budget deficit will not materialise, but Mr Clinton will nonetheless get the blame for scaring the American economy out of the recovery it needs.

For, whatever communication problems the Clinton administration may have had over the past few months, the package has come with a clear message that taxes will rise. Not surprisingly, consumer and business confidence have fallen sharply this year.

The US consumer confidence index, calculated by the Conference Board, a New York Business analysis group, fell to 57.7 in July, the lowest level since last October and sharply down from 76.7 in January. The index of business confidence fell to 57 in the second quarter, from 66 in the first quarter, its lowest level since the end of 1991.

Yet, despite popular fears that the tax burden will rise, Professor Martin Feldstein, head of the economics department at Harvard University and erstwhile chairman of President Reagan's Council of Economic Advisers, contends that many of the projected tax revenues will not materialise.

A longstanding critic of the Clinton tax plan, Professor Feldstein claims that many of the tax changes – such as raising the income tax rate on individuals earning over $115,000 from 31 to 36 per cent – are so badly designed that taxpayers only need to change their behaviour a little for many of the projected new revenues to evaporate.

According to his calculations, if high-earning individuals are able to lower their taxable income by just 10 per cent of gross adjusted income, then the US Treasury will only see about a quarter of the additional revenues it might have hoped for. The Administration's projections made little allowance for such changes of behaviour as tax avoidance or reduced work effort.

Ironically, the government's reluctant decision to back-date income tax increases to the beginning of 1993, rather than have them start from June 30 as originally planned, provides a short-term answer to Professor Feldstein's criticisms. At least in the first round of revenue-collecting, the government is more likely to collect the full increases because they have been sprung on individuals after the event.

Mr David Hale, an investment analyst at Kemper Financial services in Chicago, claims that apprehension about Mr Clinton's economic plans is behind the recent slump in consumer and business confidence. He says most households are concerned about the Clinton tax programme "despite the fact that most of the tax increases will fall on incomes above $100,000."

It is not so much the fine print of Mr Clinton's package that is denting confidence. More important has been the plan's tax-raising reputation and a sense of foreboding about what has not yet been unveiled. The Administrations's plans for reforming the health and benefit system look set to involve further increases in marginal tax rates on wages.

According to Mr Hale, companies, especially small ones, are also worried about the impact of the Clinton health and other programmes. Their fear that these will increase labour costs partly explains why many have chosen to lengthen the working week as demand has risen, rather than take on new staff.

These corporate worries are bad news for the US economy. Mr Clinton's emphasis on taxing labour – both in the deficit package and through the most likely options for health funding – may have contributed to the uneven recovery in the US jobs market which has accompanied the upturn.

Mr Clinton must hope that the negative effects of this uncertainty on economic growth are more than offset by the positive effect that cutting the deficit should have on investment and thus on America's long-term growth rate. Countries with higher national savings rates tend also to have higher rates of domestic investment in industry.

By persuading the financial markets that the government is going to cut the deficit, the budget package should bring down long-term interest rates and makes it cheaper for companies to borrow funds. However watered-down the agreed deficit package, Mr Clinton appears to have been remarkably successful in reassuring the markets. Long-term bond yields, for instance, are at historically low levels.

Entirely by accident, Mr Clinton's economic policy appears to have achieved a second success over the past few months by persuading consumers to postpone their spending decisions. For it is not just the American government which consumes too much and saves too little.

While the high federal budget deficit eats up too much of the nation's savings pie, the spending habits of American consumers make it a smaller pie to begin with. Of the 5.6 percentage point decline in US national savings as a proportion of gross domestic product since 1980, 3.4 percentage points can be traced to higher public borrowing. The remainder is due to a fall in saving by the American personal sector.

By inducing consumers to save more than they need to pay their expected tax bill, Mr Clinton's fiscal reform might also boost US investment by raising national savings.

US personal savings, as a percentage of disposable income, rose to 4.9 per cent in the first three months of this year from 4.4 per cent in the fourth quarter of 1992, though the signs are that the trend has not continued.

Mr Clinton can rightly be blamed for allowing uncertainty and fear about his tax plans to threaten America's nascent recovery. But, by pushing up private savings, he has also achieved, albeit in an accidental and haphazard manner, what many would have him plan to do on a permanent basis.

US bond markets, Page 16

Economics Notebook

By Stephanie Flanders

Chinese interest in UK flotation

By Terry Byland

THIS week will bring the first listing on the London stock market of a company involving Chinese state ownership, with the quotation tomorrow of Fortune Oil.

Fortune is aiming to capitalise on the rapidly rising stream of oil imports into China.

The company was created via the acquisition by Blackland Oil, a former London USM company, of Kingsleigh Petroleum of Hong Kong.

Kingsleigh's shareholders, which now become investors in Fortune Oil, include such leading Chinese state corporations as China National Electronics Import and Export, China National Aero-Technology Import & Export, and China North Industries.

The new company has been floated in London because the Hong Kong stock market lists no oil and gas companies.

Kingsleigh's owners will hold 70 per cent of Fortune's stock, with Blackland holding only 1 per cent. The rest of the new shareholders, expected to number between 500 and 600, will enter through the London placing of £10m of new shares.

About half of the proceeds of the London placing will be used to pay down debt, with the rest available for additional investments, some in Blackland's interests in small oilfields in Lincolnshire.

Fortune plans a $25m offshore mooring project and also has a contract with the Maoming refinery, which is one of Fortune's shareholders.ports.

The listing of the first "red chip" company, Page 14

Seeking a fortune in London

David Lascelles on the listing of the first 'red chip' company

A REVERSE takeover of a UK listed company by a Hong Kong trading concern as a means of increasing sales of oil to communist China might seem a rather tortuous way of going about it. But such is the deal which will lead to the appearance of a new name on the London stock exchange tomorrow: Fortune Oil.

The company has emerged from the acquisition by Blackland Oil, a USM-traded company, of Kingsleigh Petroleum of Hong Kong. Blackland had suffered a string of lossmaking years and was heavily indebted. But its reverse takeover by Kingsleigh will enable it to issue £27m of new shares to the vendors, and make a placing of £10m additional shares in the market.

Blackland's original shareholders will end up owning only one per cent of Fortune stock, Kingsleigh's owners will have 70 per cent, and the rest of the shareholders will come through the placing.

The deal was constructed in this way to enable Kingsleigh to tap the London market's large oil and gas sector and obtain a listing. The Hong Kong market lists no oil and gas companies and gave Kingsleigh no prospect of being able to do the deal on its home turf, according to Mr Malcolm Stone, the vice chairman.

He expects to pick up 500-600 shareholders through the placing.

Kingsleigh was set up in 1989 to trade crude oil and petroleum products mainly with China, with which it has close links. Its shareholders (who will now be in Fortune) include the founding families from the Far East, as well as several Chinese state corporations, such as China National Electronics Import & Export, China National Aero-Technology Import and Export, and China North Industries.

In fact, it is believed that Fortune will become the London Exchange's first "red chip" company with direct Chinese state ownership.

The immediate prospects of Fortune are built round China's expected need for fast-rising oil imports. With an annual growth rate of 9 per cent, the economy is outstripping the capacity of its domestic oil industry. Although China is a large oil producer, it cannot meet its needs in full, and its best reserves are located in the north west of the country, far from the consuming centres.

This has produced shortages in the booming provinces of the south east, where enterprises have been released from their obligation to import oil through the state oil monopoly.

Fortune has a scheme to install a floating mooring 15km off the south China coast linked by subsea pipeline to the mainland Guangdong province. This will enable oil to be delivered to China in much larger crude carriers than can currently access its ports, and therefore more cheaply.

The installation will be in operation by the end of next year with a capacity of 200,000 barrels a day, or 10m tonnes a year. There will also be storage facilities on shore. The project will cost $25m (£17m) which is being financed by a bank loan.

Fortune has a take-or-pay contract for 3m tonnes a year with the Maoming refinery which is linked to the landing point by a pipeline. This will rise to 5m tonnes in 1998. Maoming is also a shareholder in Fortune with 2.6 per cent stake.

Mr Ng Juak Khoon, a Fortune executive, stresses that while the mooring buoy is key to the strategy, he sees it as the basis for a much wider business in China which will include trading petroleum products and even liquefied natural gas. "The buoy is an extension of our trading business," he says.

At present there are only two refineries serving the six Chinese provinces within striking distance of the facility, but three more are planned.

Proceeds of the £10m placing will help pay down debt and leave the group with about £5m for additional investments. Some of this will be used in the UK where Blackland has interests in some small oilfields in Lincolnshire.

But investor interest in Fortune will doubtless centre most closely on the "China factor" – the country's rapid rate of growth and its growing commercialisation. However Mr Ian Taylor, the chief operating officer, says: "We don't want the China hype. We want the China interest."

Buy-in team acquires Hydron for about £27m

By Catherine Milton

ALLERGAN, the US-based drugs distributor, has sold Hydron, the contact lens maker, to a management buy-in team for about £27m.

Mr Tim Gibson, Hydron's new managing director who led the buy-in team, declined to disclose the full purchase price.

He said CINVen and CVC Capital Partners, who arranged the finance, had jointly underwritten funds of £14m, entirely in equity. NatWest Acquisition finance is understood to be providing additional banking facilities of about £13m.

Mr David Milne, CVC assistant director, said: "In the long run it would seem sensible to float the company on the London Stock Exchange. But we have no immediate plans to do so."

Mr Gibson said: "Hydron intends to be at the forefront of research and development in this sector which will be key to the company maintaining and increasing its market share."

The deal excludes the use of the Hydron name in the US. However, the MBI team is buying interests including manufacturing facilities in the UK (Farnborough), Australia and Spain, the contact lens sales force, research and development projects and the rights to patents and licences. The company had a co-operation agreement with Allergan.

Hydron is forecasting sales of £30m for its first full year of operation but is not disclosing any previous results.

The new, independent company is expected to employ about 500 people worldwide and will have operations in the UK, France, Netherlands, Spain, Italy and Austria. Hydron claims a significant share of the contact lens markets in each of these countries.

Hydron was one of the first manufacturers makers of soft contact lens and has been operating internationally since 1972. It was acquired by Allergan in 1988.

Spring Ram shareholders face further uncertainty

By Andrew Bolger

SHAREHOLDERS in Spring Ram, the bathrooms and kitchens group, face continuing uncertainty after a week of inconclusive bid talks and growing tension at board level.

Masco Corporation, one of the largest building products groups in the US, last week met Mr Roger Regan, the Yorkshire company's new chairman.

However, Spring Ram said the Masco executives only spoke in general terms about the industry and returned to the US without making any offer.

The Yorkshire company denied reports that Masco had said it could only offer 45p a share. Last Monday Spring Ram's shares rose 15p to 69p after it confirmed that talks had taken place with several parties, including Masco, but emphasised that the approaches were of a preliminary nature.

However, the leaking of Masco's approach at the beginning of last week has not helped the working relationship between Mr Regan and supporters of Mr Bill Rooney, the co-founder of Spring Ram who lost his job as chairman but is continuing as chief executive.

Mr Rooney's role as executive chairman was taken a fortnight ago by Mr Regan, a building industry veteran. He was approached by institutions, led by Prudential Corporation, after the company issued three profit warnings within eight months, causing a collapse in its share price.

Mr Regan is working with Mr Rooney on a trial basis and if the relationship does not work out, then Mr Regan has enough votes on the new board to sack him.

The new chairman is now concentrating on preparing for Spring Ram's interim results announcement on September 22, and has said he is not interested in "bargain-hunters".

Mr Regan and Mr Martin Towers, his new finance director, are being assisted in their investigations into the company by the Liverpool office of Price Waterhouse, the accountants. Price Waterhouse is likely to replace Spring Ram's existing auditors, Arthur Andersen, which signed off the annual accounts without qualification.

Colorgen acts to dampen speculation

COLORGEN has sought to dampen speculation by forecasting a 9 per cent rise in annual profits before tax and exceptionals to about $1m (£600,000) for the year to the end of June.

The announcement was made following the recent erratic trading of the USM-traded shares of this US-based colour matching specialist.

Sales were estimated to have increased from $11m to about $14m. The results are expected to be published in October.

Mr Peter Wall, managing director, said the board had decided to issue the forecast following speculation that profits might be as high as $2m.

Colorgen has also been the focus recently of takeover speculation, which on one day last month sent its shares 5p higher to 33p. Mr Wall dismissed the rumours as "absolute rubbish", pointing out that the board controlled more than 50 per cent of the shares.

On Friday the shares closed 1½p up at 34½p.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
PolyGram (Netherlands/UK)	Motown (US)	Music	£202m	Industry consolidation
Générale des Eaux (France)/Singapore Telecom (Singapore)/ Yorkshire Water (UK)	Joint venture	Telecoms	£200m	UK cable draws foreign investors
Lion Nathan (New Zealand)	Unit of South Australian Brewing	Brewing	£101m	Lion reinforces market position
Sprint (US)	Call-Net Enterprises (Canada)	Telecoms	c£83m	Link features equity stake
Weir Group (UK)	Darchem (UK/US/ Australia)	Engineering	£16m	Non-core disposal package
Govett & Co (UK)	North American Trust Co (US)	Financial services	£2.6m	High net worth move
Filofax (UK)	Libris Media (Sweden)	Distribution	£1.5m	Goodwill gesture
Techne Corp (US)	Unit of British Bio-Technology (UK)	Biotechnology	£1.5m	Deal includes warrant feature
Courtaulds Textiles (UK)	Galler Iberica (Spain)	Textiles	n/a	Also buying sister company
Holderbank (Switzerland)	Cimenterie de L'Oriental (Morocco)	Cement	n/a	Establishing Maghreb toehold

NEWS DIGEST

Better time for Crown Eyeglass

DESPITE showing falls of 6 per cent in turnover and profit, Crown Eyeglass is raising its dividend by 1p to 7p for the year ended March 28.

This is a reflection of the directors' confidence. Having established a platform for growth over the last two years, they were now looking for a period of controlled expansion.

In the opening two months of the current year profits were ahead of budget and of last year, they said.

In 1992-93 turnover was £3.75m (£3.99m) and pre-tax profit £423,000 (£451,000). Earnings per share were 15.3p (19.4p) and the final dividend is 4.5p.

The USM-quoted group, which makes spectacles and ready made reading glasses, had consolidated its position by opening six new retail franchises in the UK and re-establishing itself in Sweden.

Start-up costs were incurred in Sweden. The third optical centre should open next month and additional outlets were envisaged later in the year.

Hilclare cuts loss

Hilclare, the USM-traded designer and maker of electronic security and lighting products, recorded a profit of £16,000 in the second half.

That cut the pre-tax loss for the year ended March 31 1993 to £54,000, compared with a profit of £58,000 in previously.

Results continued to reflect the recession in its markets and the year's turnover fell from £3.33m to £2.9m. The second half profit was achieved by reducing the cost base.

With the announcement of the first half loss of £70,000 the company made a 2-for-7 rights issue at 35p to raise £240,000. The shares are currently trading at 36p.

The dividend is held at 0.5p on the increased capital, payable November 1, and is met from losses per share of 1.3p (earnings 3p).

Arjo Wiggins

Arjo Wiggins Appleton, the paper company, reports turnover up from £1.3bn to £1.43bn in the six months to June 30, benefiting from exchange rate fluctuations.

Arjo made the announcement to comply with Paris Bourse regulations, required because St Louis, the French company, has a 39 per cent holding.

It pointed out that figures may differ from sales revenue shown when the interim statement is published, after the usual management review.

Turnover in the first quarter was £738.1m (£668.2m).

Mt Edon/Burmine

The proposed three-way merger between Europa Minerals, a small UK mining finance house, and two Australian companies with which it already has close associations, Austmin and Burmine, is looking increasingly problematical after a further intervention by Mount Edon, another Australian concern.

Mount Edon, which is backed by Swiss money, already owns 18 per cent of Europa and recently made an approach which might lead to an offer for the rest.

Now it has turned to Burmine, which some analysts believe might be its prime target, and paid about A$3.3m for an 8.8 per cent stake. Europa owns 41.8 per cent of Burmine and Austmin holds 19.8 per cent of Europa.

Swissair loss deepens to SFr125m at halfway

By Ian Rodger in Zurich

SWISSAIR, the Swiss national airline, said its first-half loss widened to SFr125m ($82.7m), compared with a loss of SFr116m in the same period last year.

Profit before depreciation tumbled to SFr60m from SFr81m, and the company said it would be difficult to meet its forecast of achieving a profit this year.

Traffic volume improved 9.5 per cent and the overall load factor rose from 59.3 per cent to 62.5 per cent. However, revenues advanced only 2 per cent to SFr2.47bn.

Swissair said the figures reflected "the troubled state of the world's air transport industry, which remains plagued by a ruinous price war". The company foresaw no improvement in revenues in the second half, and was continuing to concentrate on cutting costs. Costs rose 3 per cent in the first half, to SFr2.4bn, mainly because of fuel price increases.

Depreciation charges were down from SFr197m to SFr185m. Swissair depreciates its aircraft rapidly and sells them while still relatively new. In recent years, only the proceeds from aircraft sales, which are booked at the year-end, have kept the group in profit.

The airline said it had already recorded "sizeable book profits" on aircraft sales this year.

● Holvis Holzstoff, the Swiss non-wovens group, said net profits in the first half rose 6.8 per cent to SFr19.6m on sales up 7.7 per cent to SFr393.9m, "in spite of unfriendly economic circumstances".

The group, in which the British Rail Pension Fund has a 15 per cent stake, forecast that net income in the full year would be between SFr31m and SFr33m, broadly unchanged from last year's SFr32.7m.

Last year's figure was flattered by a SFr9m extraordinary gain on a property sale, and this year the group has already made a SFr7.5m book profit on the sale of Italian subsidiaries.

Holvis warned it was examining the technical state of its production equipment. However, possible valuation adjustments "should be covered through available provisions for restructuring", it said.

Lufthansa offers to link-up with Austrian

LUFTHANSA has offered fellow carrier Austrian Airlines a co-operation deal which, if concluded, would be a blow to plans by three other airlines for a European mega-carrier, Reuter reports from Frankfurt.

Lufthansa yesterday confirmed a report in a Viennese newspaper that it made an offer for a link-up to Austria's state-owned carrier.

"We have held talks in recent weeks and have asked them to make a decision by the end of the month," said Mr Josef Grendel, a Lufthansa spokesman.

On Saturday, the daily Der Standard said Lufthansa presented Austrian with a detailed proposal that could lure it away from the Alcazar plan being negotiated with Dutch carrier KLM, Swissair and Scandinavia's SAS.

In the Alcazar project, which envisages one single big airline by 1997, Austrian would play only a minor role, since it would only get a 10 per cent equity stake in the venture while the others would have 30 per cent each.

Mr Grendel declined to discuss details of the German proposal, saying Der Standard's report was on the whole correct.

He stressed the offer should be seen in the context of Lufthansa's Europe-wide co-operation projects aimed at ensuring a more efficient use of routes and of jet capacity.

"We want to tie partners to us" through co-operation deals so as to distribute capacity in a more economically sensible way, Mr Grendel said.

Der Standard had quoted an unnamed supervisory board member at Austrian Airlines as saying the Lufthansa proposal would bring the carrier significant savings.

Taiwan's future lies a strait away

Business with China is under new pressures, writes Tony Walker

MR Winston Yang, like his father, billionaire Formosa Plastics chairman, Y.C. Wang, has strong views about the need for Taiwanese business to spread its wings to the mainland. "We will have to go to China. In my opinion our future direction is mainland China. We have to be close to our customers," says Mr Wang, 42, who heads Nan Ya Plastics Corporation, the biggest company in the Formosa Plastics group, Taiwan's biggest conglomerate.

His views are typical of those held by Taiwanese business, which is growing impatient at the brakes placed on it by the nervous authorities on commercial links with the mainland. These restrictions include a block on bank lending for projects in China, restraint on raising money on the equity markets for investment across the Taiwan strait and a requirement that permission be sought for certain categories of investment.

Taiwan's rulers worry that if all restrictions are lifted, including permission for direct trade and travel, a business exodus would accelerate, draining investment away from Taiwan itself and jeopardising the island's future prosperity and weakening it politically.

Mr Wang Jr, however, is adamant that if business is to continue to expand, it must relocate some of its operations to its largest market. This is partly, he says, because the business environment in Taiwan itself is becoming less convivial as the costs of land and labour rise steeply.

Environmental groups are also increasingly assertive, holding up key projects like a nuclear power plant and Formosa Plastics' own $7.6bn plans to build a sixth naptha cracking plant and associated petrochemical facilities.

"Taiwan industry is at a crossroads," says Mr Wang. "Problems include lack of investment incentives, not to mention the highest cost of industrial land in the world today, even higher than Japan."

Citing pressure from what he described as a "local mafia", Mr Wang said Formosa Plastics' naptha plant had been held up for six years while argument raged about environmental and other aspects of the project.

While big business in Taiwan considers its strategy across the Taiwan strait and pressures the government to ease restrictions, smaller enterprises have wasted little time in seizing the opportunity. By the end of 1992, Taiwanese businessmen had committed some $8.5bn in investment, and actual direct utilised investment had reached $1.9bn. Some 8,000 to 10,000 projects had been established with Taiwanese involvement, the vast bulk of them small and medium-size enterprises. Average investment totalled about $1m.

Mr Wang is planning a substantial investment in southern China, perhaps in the order of $200m, in a plant to produce a range of Nan Ya Plastics' staple items, including PVC and polyester products for use in manufacturing a range of consumer goods such as handbags, shoes and apparel.

"Our customers are asking Nan Ya to set up factories in China," said Mr Wang. "There is a definite economic advantage for us to invest in the mainland. It would cut delivery times for our products, bearing in mind that the fashion business changes very quickly. If there is a market, you must go the market," he adds.

Nan Ya is being drawn inexorably towards investment in the mainland by the spectacular increase in its China business. Six years ago it was exporting 10 per cent of its products across the Taiwan strait. Now, exports to China have reached 60 per cent of its total production.

TAIWAN'S FOREIGN INVESTMENT (US$m)

Country	1990	1991	1992*	1993†	1994†
Asia	602.9	929.6	306.2	400.0	500.0
China	300.0	900.0	2,000.0	2,500.0	3,000.0
US	428.7	297.8	257.6	250.0	250.0
Europe	265.9	350.2	427.9	450.0	430.0
Others	254.7	78.4	46.6	100.0	120.0
Total	1,852.2	2,556.0	3,038.3	3,700.0	4,300.0

* estimate † forecast

Source: Ministry of Economic Affairs

Among Mr Wang's chief complaints is the additional cost of shipping to China through Hong Kong to satisfy the continued ban on direct trade with China. He estimates that for each standard 17-tonne 20 ft container, additional shipping and handling charges amount to about $700. Nan Ya ships about 50,000 tonnes of product to China annually.

Mr Wang's sees his company's future and the manufacturing future for Taiwan itself in the higher value-added items, while labour-intensive industries move across the Taiwan strait. The arithmetic here would seem compelling. Wages in Taiwan for the average skilled worker amount to between $1,500 and $2,000 per month, compared with $40 per month on the mainland.

In line with these imperatives, Formosa Plastics, in it latest annual report, made no secret of its belief that the mainland offered the best prospects for growth. Interestingly, the company chairman Y. C. Wang used the report to press the case politically for a lessening of restrictions on investment in the mainland.

His remarks make interesting reading, especially in light of what is seen as the enormous potential economic strength of greater China, including Taiwan, Hong Kong and the mainland itself.

Arguing for investing in China rather than other economies in south-east Asia, Mr Yang wrote: "The first advantage for investment in mainland China is its deep-rooted nationalism system. Contained in nationalism is very little worry of misappropriation of the incoming investor's management technologies.

"The second is the historical anti-overseas Chinese events that would be avoided in the Chinese mainland. If private market reform would prevail one day, along with the burgeoning of entrepeneurship which would entail free competition." He added: "The mainland territory would offer a fabulous potential to accommodate many competitors."

Formosa Plastics clearly intends to be among these enterprises jostling for a share of the world's largest potential market, whether Taipei likes it or not.

Air Canada returns to black with tax rebate

AIR CANADA reported its first profitable quarter in almost two years, helped by a C$46m (US$35.7m) fuel tax rebate, writes Robert Gibbens.

The June quarter net profit was C$14m, or 19 cents a share, against a loss of C$129m, or C$1.78, a year earlier. Operating revenues rose 2 per cent to C$905m.

Second quarter operating profit was C$67m, against an operating loss of C$35m.

Air Canada said despite fewer passengers carried, it was the third consecutive quarterly gain at the operating level.

The higher yield reflected success in holding down fare discounts and reducing surplus capacity.

"We are getting results from two years of cost-cutting and we are a smaller but more efficient airline," said Mr Hollis Harris, president.

The first-half loss was C$279m, or C$3.77, including a C$90m write-down of Air Canada's investment in GPA, the aircraft leasing group, and a C$64m provision for retirement expenses.

A year earlier the loss was C$293m, or C$3.96. Operating revenues were C$1.7bn, against C$1.68bn.

● SNC Lavalin, a Canadian-based international engineering group, continued its turnaround in the first half, with profit of C$8.8m, or 60 cents a share, up from C$700,800, or 5 cents, a year earlier, on revenues of C$357m, up 12 per cent.

Most of the gain came in the second quarter, helped by advance payments on international contracts and lower operating costs.

Northwest Air settles terms for restructure

By Nikki Tait in New York

NORTHWEST Airlines, the fourth-largest US carrier, announced it has reached final agreement over the restructuring of its finances and established new labour contracts. The arrangements are effective after August 1.

On the financial side, Northwest's bankers have revised the repayment terms on a $1.3bn term loan. Northwest must now repay $77m in 1994, $131m in 1995, and $185m in 1996.

Repayment terms on a second, special term loan of $250m, provided last winter, have also been adjusted. The new schedule requires the carrier to repay $15m in 1993, $14m in 1994, $24m in 1995, and $34m in 1996.

Owners of Northwest's series A and series B preferred stock have agreed to a permanent dividend reduction from 14 to 8 per cent, while redemption dates have been extended to the years 2002 and 2003. In addition, three suppliers to the airline – Airbus, General Electric and United Technologies – are accepting revised repayment schedules.

On the labour side, the airline's employees have agreed to make wage and benefit concessions worth $886m over three years, and will receive units of preferred stock in return. The size of the stock grant will be determined by the extent of wage reduction.

In aggregate, the employees' preferred stock can be converted for a 37.5 per cent interest in the company's ordinary equity, or redeemed for an amount equal to the cost reductions at the end of 10 years.

Finally, Northwest's board will be expanded from 13 to 15 members, and new directors representing the three largest labour groups – the pilots, machinists and the flight attendants – will be appointed "in the near future".

Thai farming group rises to Bt337m for quarter

By Victor Mallet in Bangkok

CHAROEN Pokphand Feedmill (CPF), the main Bangkok-listed agri-industrial and aquaculture company of the multinational CP group, has announced a rise in second-quarter net profits, to Bt337.48m ($13.5m) from Bt293.09m in the same quarter last year.

A poor first quarter, however, has left first-half net profits at only Bt493.10m, compared with Bt596.65m in the the first half of 1992.

Stockbrokers in Bangkok are wary of reading too much into the figures because of the complex links between the group's public companies and its large private interests. However they say prawn feed sales were hit earlier in the year by disease in Thai prawn farms.

The chicken feed business has suffered from sharp falls in the export price of frozen chickens over the last 18 months, partly as a result of increased competition from China.

Bangkok Agro-Industrial Products, a listed CPF subsidiary, reported second-quarter net profit of Bt48.54m, up from Bt37.67m a year earlier, while CP Northeastern's net profit rose to Bt33.03m from Bt27.98m.

Leisure offshoot helps Genting to 46% advance

By Kieran Cooke in Kuala Lumpur

GENTING, the diversified Malaysian plantations, gaming and rubber group, has announced pre-tax profits for the six months to June 30 1993 of M$476m (US$186m), a 46 per cent rise on a year ago.

The bulk of Genting's revenues and profits came from Resorts World, Genting's listed affiliated company which runs the group's gaming and leisure operations. Resorts World increased its pre-tax profits 58 per cent to M$348m in the first half.

Last year Genting acquired a 6 per cent holding in Lonrho, the UK conglomerate.

Swedish builders agree merger

By Christopher Brown-Humes in Stockholm

TRE BYGGARE and BPA, the Swedish building groups, are combining to form Sweden's third-largest construction group in a significant rationalisation of the country's hard-hit building sector.

Malmo-based Tre Byggare is buying a majority stake in BPA from a group of trade unions, and is paying for the holding by selling it's entire shareholding in real estate company Wihlborg & Sons. The deal is worth between SKr500 ($61.7m) and SKr600m.

The new company will have 20,000 employees and an annual turnover of SKr20bn, which puts it third in size to NCC and Skanska, Sweden's two largest construction groups.

Mr Bengt Madsen, chairman of Tre Byggare, said the merger reflected the collapse of the Swedish building industry and the weakness of Tre Byggare and BPA. He said Tre Byggare's equity/assets ratio would double to 18 per cent, and it would get a SKr600m liquidity injection as a result of the deal.

"This is the first major merger in Sweden's current building industry crisis. Further rationalisation in the sector will be needed as the market is not going to increase for the next two years," said Mr Madsen.

Later this year Tre Byggare, which is to be renamed PEAB, plans to direct an issue of 2.5m shares to the unions, giving them a stake of around 19 per cent in the company.

● Fokus Bank, Norway's third-largest commercial bank, bounced back into the black in the first half with a profit before extraordinary items of NKr145.9m ($19.7m).

The result, which confirms an improving trend among Norwegian banks, compares with a NKr175.6m loss in the same 1992 period.

The turnround was due to improved net interest, reduced loan losses and operating costs, and profits from securities and foreign exchange dealing.

Fokus is more optimistic about its prospects than earlier in the year, when it was looking to get back into profit by 1995. This follows a fall in interest rates.

Mr Leif Klevan, managing director, said: "If the positive trend in the interest market continues, and we do not experience any unexpected losses, then Fokus Bank will be able to close the books for the year showing an important profit." The bank last made a full-year profit in 1989.

The latest figures benefited from a NKr89.9m gain from the sale of securities, compared with a NKr9.8m loss in the same 1992 period, and higher profits from foreign exchange dealing of NKr35.1m, against NKr28.2m.

Loan losses fell to NKr199.7m from NKr404.6m.

Profits surge at Argentine telecoms

By John Barham in Buenos Aires

ARGENTINA'S two privatised telephone companies, reported strong rises in sales and profits in the second quarter, confirming their ranking among Argentina's most profitable companies.

Telecom Argentina, operated by the state telephone companies of Italy and France, reported quarterly sales up 19 per cent to $374m. Net profit grew more slowly, rising 12 per cent to $50.30m. In its 1992 financial year, Telecom reported sales of $1.20bn and net income of $150.3m.

Telefónica de Argentina, operated by the Spanish state telephone company, saw second-quarter sales grow 12 per cent to $440m, while net income climbed 28 per cent to $75.60. In 1992, Telefónica reported sales of $1.58bn.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	69.62	20.35	25.82
0100	69.62	16.72	24.21
0130	32.00	16.78	24.11
0200	32.00	16.78	24.13
0230	32.00	16.76	24.22
0300	24.95	16.76	24.21
0330	24.95	16.74	24.18
0400	24.35	17.97	17.97
0430	24.35	18.50	18.50
0500	24.35	16.50	18.50
0530	6.04	18.50	18.50
0600	6.04	16.50	16.50
0630	6.04	17.96	17.96
0700	11.00	17.96	17.98
0730	17.86	18.77	24.23
0800	17.91	20.47	25.92
0830	19.00	20.88	28.34
0900	33.00	21.08	26.40
0930	33.00	22.02	27.40
1000	21.69	22.03	27.38
1030	22.01	24.10	29.50
1100	24.32	24.64	30.05
1130	25.46	28.96	34.56
1200	32.00	29.37	34.95
1230	32.00	33.00	38.65
1300	32.00	33.00	38.65
1330	31.86	24.98	30.37
1400	22.40	24.10	29.50
1430	21.69	21.50	25.81
1500	21.60	21.50	25.81
1530	18.03	18.10	18.10
1600	18.03	18.10	18.10
1630	18.05	18.11	18.11
1700	18.03	18.11	18.11
1730	21.60	18.24	18.24
1800	21.60	22.02	27.35
1830	21.60	22.02	27.35
1900	21.60	22.02	27.32
1930	21.69	21.50	26.74
2000	21.69	21.50	26.74
2030	21.74	21.50	26.75
2100	26.95	21.50	26.75
2130	33.00	22.02	27.29
2200	33.00	33.00	38.48
2230	33.00	33.00	38.41
2300	22.43	33.00	38.49
2330	21.69	28.45	34.05
2400	21.60	21.28	26.62

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.66/MWh becomes 1.866p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being [illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.95	21.06	28.04
0100	17.92	20.71	25.80
0130	17.91	20.25	25.31
0200	17.91	20.71	25.73
0230	17.91	20.71	25.73
0300	17.91	20.71	25.74
0330	17.91	20.47	25.48
0400	17.91	20.47	25.49
0430	17.91	20.47	25.50
0500	17.91	20.47	25.53
0530	24.51	29.00	29.00
0600	33.00	34.00	34.00
0630	33.00	40.76	46.91
0700	[illegible]	[illegible]	28.21
0730	49.37	27.30	[illegible]
0800	49.37	27.19	32.25
0830	25.24	28.03	32.94
0900	26.40	28.76	33.71
0930	28.64	33.84	39.04
1000	28.43	33.94	[illegible]
1030	28.94	34.01	39.24
1100	29.06	34.20	39.48
1130	30.81	[illegible]	39.73
1200	33.20	42.87	48.54
1230	33.12	42.69	48.30
1300	32.85	42.39	47.84
1330	27.38	28.97	33.70
1400	26.72	[illegible]	33.55
1430	[illegible]	28.08	32.83
1500	26.63	27.58	32.23
1530	26.62	28.28	30.99
1600	25.88	27.60	32.36
1630	30.12	[illegible]	38.80
1700	38.65	[illegible]	38.78
1730	38.61	34.81	38.72
1800	38.38	[illegible]	38.71
1830	29.80	27.51	32.28
1900	26.30	27.50	[illegible]
1930	25.23	25.02	29.73
2000	24.84	25.02	29.81
2030	24.64	27.60	32.48
2100	38.00	52.50	58.31
2130	38.00	34.00	34.00
2200	[illegible]	34.00	34.00
2230	24.64	35.00	35.00
2300	24.08	35.00	35.00
2330	22.63	20.50	20.50
2400	22.31	19.07	19.07

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.66/MWh becomes 1.866p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being [illegible]

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Budget victory provides comfort

IF THE Clinton Administration heaved a huge sigh of relief as the budget deficit package squeaked through the Senate on Friday night, the nation's bond markets probably shared the sentiment. It is not as if anyone is starry-eyed about the impact of the Clinton proposals. However, on balance, better that this package is implemented than more weeks of uncertainty.

Despite the eventual narrowness of the president's victory in Washington, bond traders had been edging towards the assumption that the package would pass all week.

Confidence began to set in on Tuesday, with the result that the benchmark 30-year Treasury bond rose by over half a point, pushing its yield down to 6.51 per cent. That represented the lowest closing level since the Treasury began regular auctions of the 30-year bond 16 years ago.

Even then, however, convictions were quickly unsettled, and some of Tuesday's early euphoria died away in the late afternoon. For the next three days, the market fluctuated apprehensively, although by Friday evening most market participants said that passage of the bill was largely factored into bond price levels.

The long bond itself ended the week with a yield of 6.53 per cent, down from the previous Friday's 6.56 per cent. Despite economists' debate over the value of the Clinton proposals, the package is generally seen as bullish for bond prices. In theory, at least, higher taxes should slow the economy, while any check on the deficit implies less government borrowing, making existing bonds more valuable.

However, while the media spotlight was fixed on Capitol Hill last week, bond traders were equally interested in the release of a string of economic statistics.

The most important data came on Friday, in the form of the July jobs report, although the figures contained few surprises. Broadly speaking, the report reinforced the impression of an economy in modest, but steady, expansion. Payroll employment increased 162,000, while the unemployment rate slipped from 7 to 6.8 per cent. This was close to market expectations, and commentators were quick to note that the fall in the unemployment rate was helped by a decrease in the size of the labour force last month.

Statistics released earlier in the week presented an equally comforting picture. Manufacturers' new orders rose 2.6 per cent last month, but much of this was transportation-related and the underlying increase in the manufacturing sector was modest. Similarly, the National Association of Purchasing Managers' report for July remained below the critical 50 level – rising only slightly from 48.3 in June to 49.5 last month. (Readings above 50 suggest that the manufacturing economy is expanding).

Small wonder, then, that few economists are really concerned about the impending price data, which will be unveiled this week.

Thursday will see the release of the July Producer Price Index. Most pundits are talking of a 0.2 per cent increase in the "core" rate, which excludes food and energy costs. On Friday, the expectation is for a similar rise in the "core" Consumer Price Index, which would match the average monthly advance notched up over the March-June period. If those predictions prove correct – and coupled with last week's unalarming jobs numbers – almost everyone concurs that the Fed's monetary policy will simply stand on hold.

Nikki Tait

ITALIAN BONDS

Activity brings great expectations

ITALY'S bond dealers will be wondering whether the week ahead will live up to that just passed, when investors ploughed into Italian paper to lock into relatively high yields before expected interest rate cuts.

The market had not been so active for months, with prices and volumes for 10-year futures rising particularly fast. Futures prices jumped by about L5 on the week to close at about L109 on Friday. Just 11 months ago, when currencies were in turmoil and confidence in Italy was fading, futures prices were hovering around L90.

The reasons for investors' new interest is reflected in figures from JP Morgan showing that Italy was Europe's best-performing government bond market in July, with a return of 2.77 per cent in local currency terms – more than double the European average of 1.33 per cent.

"Last week started with euphoria and ended little less exciting. We expect some consolidation now, but confidence in Italian bonds has clearly been re-established," said one trader at Caboto in Milan.

The market has regained much of the support lost after the lira left the exchange rate mechanism, and the pace of the political corruption scandal accelerated last year. After having ditched lira paper on the back of political uncertainty and currency risk, foreign investors are back in force.

Ironically, the reasons for buying lira bonds are virtually identical to those before the flotation. Then, as now, lira issues offered a substantial spread advantage over comparable German or French paper, while the outlook for inflation looked encouraging. With interest rates across Europe expected to fall, investors wanted to guarantee their returns.

The difference now is that the lira is outside the ERM. But with the mechanism in tatters, and participating currencies observing 15-percentage-point fluctuation bands, that is no longer so relevant. For today's investors, the markets set to gain most from the less strict ERM standards are those with higher yields, such as Italy, where interest rates have furthest to fall.

"The political picture is also looking up," says Mr Sergio Stotto, of Albertini in Milan. "Last week saw approval for electoral reform, opening the way to new elections, and the Senate passed the government's broad 1994-1996 budget plans." The political news gave the markets an additional fillip, pushing prices for 10-year futures to almost L110 on Wednesday.

Most dealers expect a period of stability now. Few expect the Bank of Italy to cut rates before its European counterparts. And any temptation to act independently would only follow further steps on tackling the budget deficit, meaning that it will probably have to wait until parliament returns from its summer recess.

Some dealers warn against over-enthusiasm, however. "The timing of new elections and privatisations are still up in the air," says one London-based dealer. "Italy still has many obstacles to overcome."

"The danger is the market has moved too quickly. Prices are looking very toppy now," says a Milan colleague. "Central banks will want to restore their reserves, so it will be a while before interest rates fall any further."

Haig Simonian

UK GILTS

No sign of let-up in rally

THE RISE in the gilt market shows little sign of running out of steam. As investors continued to buy the securities on hopes of lower interest rates across Europe, 25-year dated gilts ended the week at their best levels for 25 years.

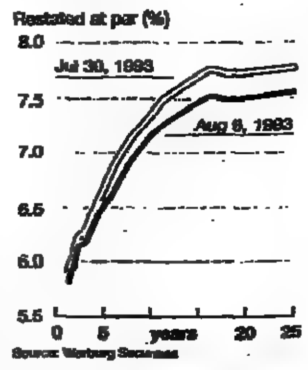
The 0.25 percentage point fall in yields for longer-dated securities illustrated the perception in financial markets that, after the remodelling of the European exchange rate mechanism, there will be plenty of room for UK borrowing rates to ease by the end of the year.

While the September long gilt future was on Friday night quoted at 111$\frac{25}{32}$, close to a record, London share prices ended the week at a new high. The FT-SE 100 index closed up 26.4 points on the day, at 2,969.8, topping the previous record close of 2,957.3.

The unusual event of the two markets being close to a peak at the same time underlines the belief that inflationary pressures are becoming less of a problem. According to this thinking, the UK government might be able to bring down base rates from 6 per cent, without worrying that extra demand would feed into rising prices for goods and services.

Behind the events of the past week, in which medium-dated gilts have climbed nearly 2 points, is the feeling that the new 15 per cent bands in the ERM will allow large cuts in interest rates across continental Europe. Government bonds across Europe have risen as a result, with the biggest gainers being gilts and Spanish and Italian securities.

UK gilts yield



Source: Warburg Securities

Non-UK institutions were big buyers of gilts last week. This was on the view that sterling was likely to gain in the short run from not being a member of the mechanism.

The lack of action by continental European governments in cutting interest rates last week was seen as only temporary. It was thought countries such as France, Denmark and Belgium will want to pause for breath before easing monetary conditions and risking a further fall in their currencies.

With 10-year gilt yields finishing the week at around 7.1 per cent, and 25-year yields at 7.6 per cent, the market was barely disturbed by news of a £1.5bn gilt issue from the Bank of England. The gilts go on sale from today and comprise £1bn of partly-paid 8.5 per cent Treasury loan stock due 2007 at a price of 108.50 per cent; £100m of 7.75 per cent Treasury loan stock due 2012 to 2015; £200m of 2.5 per cent index-linked Treasury stock due 2013; and £200m of 2.5 per cent index-linked Treasury stock maturing 2024.

Some market participants have been depressed by worries about the large issues of gilts to finance the expected £50bn government deficit this financial year. However, Mr Michael Rosenberg, head of international fixed-income research at Merrill Lynch says: "Concerns about budget deficits are unlikely to have much of an effect on bond markets while inflation trends are thought to be sound."

This week a raft of data will shed more light on the degree of demand in the UK economy and consequent inflationary pressures. Figures today will indicate how much new credit consumers took on in June, with the market believing this will be about £170m.

Concerns about the strength of the upturn are reflected in forecasts for manufacturing output, with the City expecting a month-on-month fall of 0.6 per cent in June. However, this would partly reflect a strong May figure, when output rose 1.8 per cent on the month.

The manufacturing figures will be released on Thursday, as will labour market data for June and July.

Peter Marsh

Bowthorpe seeks $75m through US placement

By Sara Webb

BOWTHORPE, the international electronic and electrical components group, plans to raise $75m from US institutions with a private placement of 10-year fixed-rate bonds.

Mr Colin McCarthy, finance director, said he felt "the timing was right to borrow US dollars long term", given that US interest rates were at their lowest levels in nearly two decades. The company expects to borrow funds at below 7 per cent.

"We have major investments in the US so we need dollars," Mr McCarthy said, pointing out that proceeds of the bond issue would be kept in dollars.

Bowthorpe has a five-year £100m borrowing facility – known as a multi-option facility, or MOF – which is approaching its maturity date and which allowed the company to borrow at 15 basis points over the London inter-bank offered rate (Libor). The US private placement of bonds is intended to replace this MOF financing, of which [illegible] was committed.

UK companies have been flocking to the US private placement market in recent months, attracted by the availability of long-term funding at relatively favourable terms.

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Hopes of interest rate cuts fuel European revival

INTEREST rate fever swept through the European bond markets last week with the birth of a brave new world of floating exchange rates.

The decision by European Community finance ministers, taken early on August 2, to move from a fairly rigid European exchange rate mechanism based on narrow fluctuation bands to one where the fluctuation bands of 15 per cent are so wide as to be irrelevant, triggered a strong rally in European bonds. This was prompted on the view that European governments would be free to kick-start their recession-hit economies by swiftly cutting domestic interest rates.

In fact, few cut rates once the shackles were removed, and those who did were far from bold. The Bundesbank surprised the markets with a 15 basis point cut in the fixed rate for 14-day repos, to 6.80 per cent, and an easing in the 28-day repo rate, to 6.70 per cent – which put the latter below the discount rate of 6.75 per cent.

Spain cut its benchmark interest rate by half a point, to 10.5 per cent, while Sweden snipped 25 basis points off its marginal lending rate, to 8.25 per cent. However, there is ample scope for European interest rates to fall further, and the bond markets have soared in response.

Even the Ecu bond market – which is so sensitive to shifts in sentiment regarding the future of Europe – saw a sudden renewal of interest last week. However, while its short-term prospects make it attractive to some investors, there is still a large question mark over its longer-term attractions.

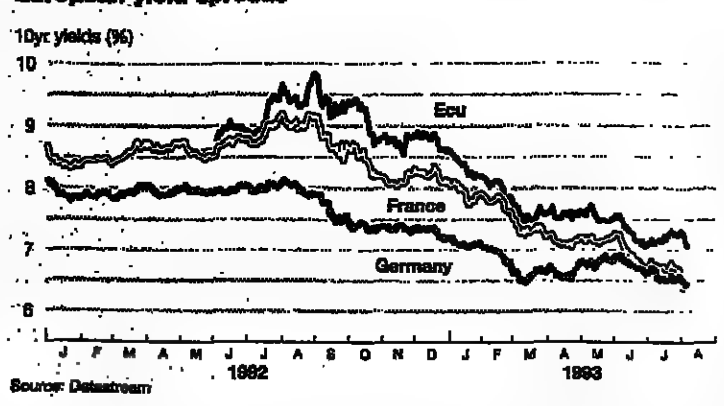
The Ecu bond market took off last week mainly because investors realised the bonds were too cheap, while providing a relatively simple means of benefiting from the potential for interest rate cuts across Europe.

"It's a cost-effective way of gaining exposure to European markets – people buy it as a way of saving dealing costs," says Mr Michael Burke, economist at Citibank.

The actual yield on Ecu bonds was higher than the theoretical yield curve (calculated according to the bond yields of the Ecu's component currencies), which meant the bonds were cheap relative to the theoretical value.

However, last week's rally in the Ecu bond market pushed actual yields below theoretical yields. For example, the actual yield on the 8 per cent, 10-year French Ecu bond was 6.99 per cent on Friday, or 7 basis points below its theoretical yield, while three-month UK Ecu treasury bills had an actual yield of 7.9 per cent, compared with a theoretical yield of 7.95 per cent.

European yield spreads



Source: Datastream

"The actual yield could be as much as 20 to 30 basis points lower than the theoretical yield, and the bonds would still represent good value because of the transaction cost-saving," says Mr Burke.

Mr Bob Tyley, head of bond analysis at Paribas Capital Markets, points out that for investors based outside Europe, the move from semi-fixed to floating exchange rates means there is more uncertainty over which currency will do what. As a result, the basket nature of the Ecu becomes more important, given that the Ecu can be used as a substitute means of investing in Europe, he says.

Yet for all the short-term euphoria springing from the move to wider fluctuation bands in the ERM, there is still considerable concern over the future of the Ecu.

"The whole prospect of European monetary union is, if not dead, at least on its death-bed, so it is highly unlikely that the Ecu bond market will enjoy the same attractions as it did before the first Danish referendum on the *Maastricht* treaty," says Mr Burke.

If there are grave doubts over whether the Ecu will become the single currency for Europe, investors and issuers may well wonder why they should bother with a market which does not have much of a future and which could suffer from illiquidity – even if Mr John Major does try to relaunch the plan for a hard Ecu.

Ecu bond issuance has certainly dried up since the Danes dealt a blow to hopes of European economic and monetary union last summer. Ecu bond specialists, meanwhile, admit it is hard to see why issuers should tap this market at the moment. In the past, some issues have been swap-driven, but dealers say there are few favourable swap opportunities in Ecu.

So if there is to be a fresh drive to revive the Ecu bond market, it may well have to be politically motivated. In the past, France was one of the keenest advocates of Ecu bond issuance, and had undertaken to conduct about 15 per cent of its funding in Ecu. However, given that French government bond yields are lower than Ecu bond yields, there is no financial incentive for the French to issue Ecu-denominated debt, although those with a keen interest in the Ecu market no doubt will be watching closely to see just how committed the Ecu's supporters prove to be.

Sara Webb

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Keihin Electric Railway(e)ф	250	Aug.1997	1.625	100	-	-	Yamaichi Intl.(Europe)
IMI Bank Intl. (Cayman)‡	150	Sep.1997	(f)	99.86R	-	-	K.Peabody/Lehman Bros.
Inter-American Dev'ment Bank	500	Aug.2003	6	99.22R	6.107	+20 (5¾%-03)	Merrill Lynch Intl.
Ford Motor Credit Corp.(h)‡	400	Aug.1998	(h)	99.77R	-	-	Morgan Stanley Intl.
Banpais, Cayman Islands	100	Aug.1995	8.25#	99.91R	8.300	+415 (4¼%-95)	ING/ VestcorPartners
Bayerische Hypobank(l)‡	50	Aug.2003	(l)	100R	-	-	Goldman Sachs Intl.
Hainan Intl. Tst. & Inv. Corp.‡	80	Aug.1998	(m)	100	-	-	Nikko Securities Asia
Abbey Nat.Treasury Services	250	Sep.1996	4.875	99.896R	4.913	+30 (WI 3yr)	G.Sachs Asia/ Lehman
Philippine Airlines	100	Aug.1996	8#	99.4775R	8.200	+375 (4¼%-96)	Chemical Inv'ment Bank
Banco di Napoli (Hong Kong)‡	100	Sep.2003	(o)	99.75R	-	-	Lehman Brothers Intl.
Chase Manhattan Corp.‡	100	Sep.2003	(p)	100R	-	-	Kidder Peabody Intl.
D-MARKS							
National Bank of Hungary	1bn	Sep.2003	8.75	101.5	8.521	-	Deutsche Bank
Royal Dutch Fokker	150	Aug.1998	6.5	101.5	5.947	-	Dresdner Bank
European Investment Bank	500	Aug.1997	6	101.386	5.610	-	Commerzbank
Bayerische Vereinsbank O'seas	500	Sep.1998	6	101.6	5.624	-	Bayerische Vereinsbank
STERLING							
National Power(i)§	250	Sep.2008	6.25#	100	-	-	CSFB
Homer Finance No.2(k)‡	140	Aug.2030	(k)	99.93R	-	-	UBS/ SG Warburg Secs.
Homer Finance No.2(l)‡	14	Aug.2030	(l)	100R	-	-	UBS/ SG Warburg Secs.
Kingdom of Denmark	700	Aug.1998	6.75	99.67R	6.830	+28 (7¼%-98)	UBS/ SG Warburg Secs.
Kingdom of Denmark‡	500	Aug.1998	(n)	99.725R	-	-	UBS/ SG Warburg Secs.
Kingdom of Denmark(q)	100	Aug.1998	6.75	99.875R	6.780	+28 (7¼%-98)	UBS/ SG Warburg Secs.
FRENCH FRANCS							
Crédit Local de France	500	Aug.1998	5.75	99.41R	5.890	+18 (6½%-98)	Banque Paribas
YEN							
Odakyu Electric Railway(a)§	20bn	Sep.1998	1.8#	100	-	-	Nikko Europe
Olympic Sports Co.(b)§	5bn	Sep.1997	1.75#	100	-	-	Nomura International
Nichirei Corp.	10bn	Nov.2000	5	100.1R	-	-	Fuji Intl. Finance
Mitsubishi Corp. Finance	10bn	Mar.1998	3.6	100.15R	3.446	-	Goldman Sachs Intl.
CANADIAN DOLLARS							
General Electric Capital Corp.	150	Sep.1997	6.25	99.62R	6.361	+45 (6½%-96)	JP Morgan/Swiss Bk.Crp.
SNCF	150	Sep.1997	6.25	99.62R	6.361	+45 (6½%-96)	JP Morgan Securities
European Investment Bank	125	Sep.1997	6	99.05R	6.273	+38 (6½%-96)	Barclays de Zoete Wedd
UBS Australia	150	Sep.1997	6.25	99.65R	6.352	+40 (6½%-96)	UBS
Crédit Lyonnais	150	Sep.1997	6.5	99.265R	6.710	+75 (6½%-96)	Crdt.Lyonnais Euro-Secs.
Crédit Local de France	125	Sep.1997	6.375	99.9R	6.404	+47 (6½%-96)	Morgan Stanley Intl.
AUSTRALIAN DOLLARS							
Sth.Australian Govt.Fin.Auth.	125	Sep.2003	7.25	100.7	7.150	-	Hambros Bank
Sth.Australian Govt.Fin.Auth.(m)	25	Sep.2003	7.25	100.6	7.164	-	Hambros Bank
DANISH KRONER							
Finance for Danish Industry	350	Aug.1998	6.75	101.875	6.307	-	Morgan Stanley Intl.
Mortgage Bank of Denmark	300	Sep.1998	6.625	100.023R	6.619	-	Chemical Inv'ment Bank
SWISS FRANCS							
Hokkaido Gas Co.(c)ф	100	Aug.1997	1.125	100	-	-	Yamaichi Bank (Switz.)
Kato Denki Co.(d)*§	50	Sep.1997	1#	100	-	-	Nomura Bank (Switz.)
Nankai Construction Co.(g)*ф	45	Aug.1997	1	100	-	-	Daiwa Secs.Bk.(Switz.)
LB Schleswig Holstein (Lux)*	100	Sep.1996	4.25	101.5	3.713	-	UBS
LUXEMBOURG FRANCS							
Goldman Sachs Group	1.5bn	Sep.2003	7.625	102.5	7.265	-	Crédit Européen

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. *Private placement. §Convertible. фWith equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price. a) Conversion price: Y828. Callable on 1/10/94 at 102% falling ½% annually. b) Conversion price: Y2183. Callable, subject to 150% rule, on 1/4/94 at 102½% falling ½% semi-annually. c) Denom.: SFr50,000 + 60 warrants. Exercise price Y834. FX: 70.06Y/SFr. d) Conversion price Y1820. FX: 69.94Y/SFr. Callable, subject to 130% rule, on 30/3/94 at 101½% falling ½% semi-annually. Callable on 30/9/96 at 102% falling ½% semi-annually. e) Denom.: $10,000 + 2 warrants. Exercise price: Y744. FX: 105.5Y/$. f) Coupon pays 6-month Libor + 0.375%. g) Denom.: SFr50,000 + 60 warrants. Exercise price: Y554. FX: 70.761/SFr. h) Coupon pays 3-month Libor + 0.25%. i) Conversion price: £4.33. Callable from 21/10/98 at par or earlier if 85% of the bonds are converted. j) Issue launched on 29/7/93 was increased to $150m. Coupon pays 6-month Libor - 0.25%, minimum 5.25%, maximum 8.25%. k) Class A notes. Coupon pays 3-month Libor + 0.8% until Feb.2001 and + 1% thereafter. Average life: 4.6 years. l) Class B notes. Coupon pays 3-month Libor + 1.9% until Aug.1998, + 2% until Feb.2001 and + 2.25% thereafter. Average life: 6.6 years. m) Coupon pays 6-month Libor + 0.65%. n) Coupon pays 3-month Libor - 0.125%. o) Coupon pays 6-month Libor - 0.125%: minimum 6.125%, maximum 10%. p) Coupon pays 6-month Libor - 0.15%, maximum 5.6%, minimum 9%. q) Issue launched on 5/8/93 was increased to £600m. Note: Yields are calculated on ISMA basis.

RISK AND REWARD

Directors' stock options packages under scrutiny

Hundreds of otherwise conservative corporate boards of directors have blundered into the derivatives arena, writing options on millions of dollars of the corporation's own stock. Then, like the world's worst traders, the directors fail to account for the options liability on the corporate balance sheet or take any steps to hedge the options exposure.

Shareholders, in the language of options traders, are left naked. In the trading room of an investment bank, this behaviour would be viewed as wildly speculative and irresponsible. In the corporate arena, it is an accepted, and expanding, practice.

Corporations, seeking to design executive compensation plans with built-in performance motivations, routinely grant generous stock options packages. When the options are exercised, new shares are issued, diluting shareholder equity.

Mr Carl Levin, a US Democratic senator from Michigan, calls it "stealth compensation". Since US accounting rules don't require corporations to charge the options liability to earnings, many directors view options as a "free" way to boost compensation packages.

Options compensation proliferated during the 1980s. Many of those perks had eight to 10-year durations, and when US income tax laws changed in 1992, some high-profile executives grabbed headlines with options exercises.

Mr Michael Eisner of Disney, for one, took several hundred million dollars in gains from options exercises in December. The company issued stock to meet his call. The late Mr Steven Ross of Time-Warner was given a lucrative option on 7.2m shares of the company's stock in 1990. Analysts say they are still exercisable by Mr Ross's estate, and are now valued at more than $50m.

Smaller companies, particularly high-technology firms, may have a surprisingly large percentage of stock exposed to options compensation. Although determining options exposure from a company's annual report is difficult, an estimated 17 per cent of Compaq computer, for example, is tied up in options. Typically, a corporate's options exposure is far smaller, but cannot be viewed, as it often is by corporate boards, as insignificant.

Mr Graef Crystal, Emeritus Professor at the University of Southern California at Berkely, and an options benefits consultant, says: "The danger of this is that any commodity that is undervalued is usually over-consumed. The biggest barrier to proper accounting for executive options, and for proper hedging, is the perception that options have no value."

The Federal Accounting Standards Board is on the verge of requiring companies to reduce their reported earnings by the value of their stock options. This, many analysts fear, would remove a valuable executive incentive tool. Options traders and institutional investors, however, believe the issue is not accounting rules, but proper management of the options position.

Equity options specialists at Swiss Bank Corp and at Salomon Brothers say that shareholder liability to executive options could be easily managed by an offsetting call purchase. In other words, if Disney wished to grant an executive the right to buy 1m shares at $37 each any time during the next five years, Disney, at the same time, would buy calls on its own stock from a market-making dealer for the same quantity, duration, and strike price.

The offsetting calls would limit shareholder exposure to the executive's bonus package to the cost of the options premium, should Disney's stock price rise. Dealers estimate the cost of the offsetting option, given the five-year life, would amount to about 25 per cent of the share price. The dealer-issued calls, if exercised, are non-taxable to the corporation, reducing costs.

"Corporations have a hard time with valuing their own options, but we are willing to make a market for them anytime," one options trader notes.

"An executive looking after his own interest will be unwilling to spend millions up-front [for a call premium] to protect shareholders from a liability that may be five or 10 years down the line, even if the options exposure could run into hundreds of millions of dollars."

Laurie Morse

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close August 6

Quotations in cents unless marked $

MONTREAL

4 pm close August 6

Total Sales 34,433,882 shares

INDICES

NEW YORK

DOW JONES	Aug 6	Aug 5	Aug 4	Aug 3	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3560.43	3548.97	3552.05	3561.27	3567.70 (26/7)	3241.95 (20/1)	3567.70 (26/7/93)	41.22 (2/7/32)
Home Bonds	108.72	108.67	108.43	108.47	108.72 (6/8)	103.49 (11/1)	108.72 (6/8/93)	54.99 (1/10/81)
Transport	1603.34	1592.87	1612.75	1612.10	1683.08 (16/4)	1453.84 (4/1)	1683.08 (16/4/93)	12.32 (8/7/32)
Utilities	250.86	252.04	251.28	251.58	252.04 (5/8)	217.14 (8/1)	252.04 (5/8/93)	10.50 (8/4/32)

DJ Ind. Day's High 3583.35 (3574.12) Low 3536.12 (3523.54) (Theoretical♠)
Day's High 3566.71 (3560.15) Low 3546.97 (3537.80) (Actual♠)

STANDARD AND POOR'S

	Aug 6	Aug 5	Aug 4	Aug 3	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	448.98	448.13	448.54	449.27	456.33 (10/3)	429.05 (8/1)	456.33 (10/3/93)	4.40 (1/6/32)
Industrials¶	507.59	506.57	507.98	508.56	524.99 (10/3)	488.49 (26/4)	524.99 (10/3/93)	3.62 (21/6/32)
Financial	45.59	45.43	45.37	45.23	46.87 (13/4)	39.89 (8/1)	46.87 (13/4/93)	8.64 (1/10/74)
NYSE Composite	248.81	248.54	248.93	249.25	251.36 (10/3)	236.21 (8/1)	251.36 (10/3/93)	4.46 (25/4/42)
Amex Mkt. Value	436.34	435.53	436.42	437.20	440.95 (4/8)	395.84 (8/1)	440.95 (4/8/93)	29.31 (9/12/72)
NASDAQ Composite	718.06	715.50	713.79	709.01	718.06 (6/8)	645.87 (26/4)	718.06 (6/8/93)	54.87 (31/10/72)

	Jul 30	Jul 23	Jul 16	year ago (approx.)
Dow Industrial Div. Yield	2.85	2.93	2.95	3.07

	Aug 4	Jul 28	Jul 21	Year ago (approx.)
S & P Industrial div. yield	2.53	2.59	2.55	2.86
S & P Indl. P/E ratio	25.09	25.00	25.09	26.50

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Eastman Kodak	6,578,000	56½	+ 3⅛
Mylan Labs	3,795,600	23⅛	+ 2½
Motor Coach	3,594,700	12⅞	+ ⅛
K Mart	3,238,300	22	---
Merck	2,381,200	30¼	-
Homestake	2,380,100	19⅛	+ ⅛
Chrysler	2,334,000	41⅞	- 1
Amer Barrick	2,306,600	24½	+ ¼
Sunshine Mining	2,007,300	2⅞	---
Sears Roebuck	1,773,300	55	+ 1⅞

TRADING ACTIVITY

† Volume Millions	Aug 6	Aug 5	Aug 4
New York SE	215.496	245.762	231.889
Amex	18.727	20.539	22.911
NASDAQ	(u)	269.817	235.375
NYSE			
Issues Traded	2,580	2,575	2,582
Rises	974	895	973
Falls	873	1,037	920
Unchanged	733	643	689
New Highs	99	115	118
New Lows	28	38	28

CANADA

TORONTO	Aug 6	Aug 5	Aug 4	Aug 3	1993 HIGH	1993 LOW
Metals & Minerals	3014.65	3025.10	3033.66	3006.45	3033.66 (4/8)	2743.31 (21/1)
Composite	3960.00	3947.80	3988.50	3976.50	3997.72 (3/7)	3275.80 (21/1)
MONTREAL Portfolio	1884.88	1886.60	1907.62	1901.08	1939.10 (25/5)	1720.87 (21/1)

Base values of all indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♠ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

	Aug 6	Aug 5	Aug 4	Aug 3	1993 HIGH	1993 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1842.2	1865.3	1861.2	1833.4	1865.30 (5/8)	1495.00 (13/1)
All Mining (1/1/80)	893.7	901.0	900.1	898.2	904.50 (2/8)	594.70 (13/1)
AUSTRIA						
Credit Aktien (30/12/84)	391.67	391.20	391.98	392.53	392.53 (3/8)	300.26 (14/1)
Traded Index (2/1/91)	989.70	981.60	982.00	981.37	989.20 (6/8)	712.08 (15/1)
BELGIUM						
BEL20 (1/1/91)	1342.09	1323.61	1331.44	1342.46	1344.63 (2/8)	1125.46 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	323.81	321.99	326.37	328.95	328.95 (3/8)	261.90 (4/1)
FINLAND						
HEX General (28/12/90)	1352.3	1333.0	1331.8	1319.5	1352.30 (6/8)	843.10 (22/1)
FRANCE						
CAC General (31/12/81)	577.48	571.39	573.71	572.10	577.48 (6/8)	471.24 (13/1)
CAC 40 (31/12/87)	2149.83	2115.30	2101.38	2110.58	2149.83 (6/8)	1772.21 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	726.08	721.08	725.92	710.85	726.08 (6/8)	599.92 (14/1)
Commerzbank (1/12/53)	2089.4	2081.9	2086.3	2020.6	2086.40 (6/8)	1689.30 (14/1)
DAX (30/12/87)	1863.38	1860.70	1860.56	1843.43	1863.38 (6/8)	1516.50 (13/1)
HONG KONG						
Hang Seng Bank (31/7/64)	7396.77	7307.54	7164.20	7211.83	7447.24 (27/7)	5437.80 (4/1)
IRELAND						
ISEQ Overall (4/1/88)	1691.94	1683.62	1684.80	1684.03	1691.94 (6/8)	1181.19 (11/1)
ITALY						
Banca Com. Ital. (1972)	581.46	580.47	581.84	578.51	581.84 (4/8)	446.33 (8/1)
MIB General (4/1/93)	1281.0	1279.0	1282.0	1270.0	1282.00 (4/8)	992.00 (11/1)
JAPAN						
Nikkei (16/5/49)	20357.94	20425.64	20497.55	20367.84	21076.00 (3/8)	16287.45 (25/1)
Tokyo SE (Topix) (4/1/68)	1654.59	1661.82	1671.64	1657.22	1676.13 (3/8)	1250.06 (25/1)
2nd Section (4/1/68)	2219.63	2227.44	2229.44	2227.45	2284.97 (7/6)	1651.72 (26/1)
MALAYSIA						
KLSE Composite (4/4/86)	778.66	786.49	781.99	771.67	786.49 (5/8)	614.29 (13/1)
NETHERLANDS						
CBS TtlRtn Gen. (End 1983)	362.7	362.0	362.5	363.8	363.80 (3/8)	295.70 (4/1)
CBS All Shr (End 1983)	238.0	237.6	237.9	238.7	238.70 (3/8)	196.60 (13/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	895.76	890.93	866.92	867.98	895.76 (6/8)	660.93 (27/1)
PHILIPPINES						
Manila Comp (2/1/85)	1743.97	1760.92	1788.4	1783.30	1783.30 (3/8)	1270.56 (4/1)
SINGAPORE						
SES All-Singapore (2/4/75)	471.94	470.18	470.12	468.18	471.94 (6/8)	394.10 (13/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1814.0¶	1875.0	2015.0	2024.0	2098.00 (30/7)	775.00 (5/1)
JSE Industrial (28/9/78)	4562.0¶	4574.0	4599.0	4601.0	4719.00 (8/7)	4333.00 (19/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	721.48	732.05	720.02	721.54	777.25 (9/6)	605.93 (6/3)
SPAIN						
Madrid SE (30/12/85)	(u)	270.19	270.80	271.11	272.74 (2/8)	215.60 (4/1)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	1250.1	1241.5	1219.1	1222.2	1250.10 (6/8)	879.10 (28/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	1044.1	1043.9	1043.0	1041.7	1048.60 (13/7)	904.80 (11/1)
SBC General (1/4/87)	835.9	836.2	836.6	834.7	838.20 (5/8)	676.70 (11/1)
TAIWAN**						
Weighted Price (30/6/66)	4025.93	4065.92	4046.21	3949.29	5013.28 (7/4)	3088.43 (9/1)
THAILAND						
Bangkok SET (30/4/75)	958.84	948.26	945.38	(c)	998.44 (25/1)	818.84 (1/6)
WORLD						
M.S. Capital Intl.(1/1/70) §	583.1*	583.0	584.3	582.4	584.30 (4/8)	468.80 (13/1)
Euro Top-100 (26/6/90)	1092.58	1086.77	1083.34	1086.19	1092.58 (6/8)	892.73 (13/1)

**Saturday July 31. Taiwan Weighted Price: 3960.38. Korea Comp Ex: 728.94.
¶ Subject to official recalculation.

*Calculated at 15.00 GMT

Base values of all indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000, JSE Gold - 255.7, JSE 25 Industrials - 264.3 and Australia All Ordinary and Mining - 500; (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

Friday, August 6, 1993

	Stocks Traded	Closing Prices	Change on day
Sumitomo Mtl Mn.	6.6m	1,010	-40
Tsumura	4.4m	2,230	+60
Takasago Intl	4.2m	665	+35
Nippon Steel	4.0m	371	+4
Tokio M&F Ins	3.0m	1,360	+10
Mitsui Mn & Sm	2.6m	532	-20
Kawasaki Steel	2.5m	380	+7
Sumitomo Mtl Ind.	2.1m	341	+4
Nikkatsu	2.0m	24	+1
Nikko Sec	2.0m	1,160	+20

AUSTRIA

FRANCE

GERMANY (continued)

NETHERLANDS (continued)

SWEDEN (continued)

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

IRELAND

ITALY

NORWAY

SPAIN

SWITZERLAND

SOUTH AFRICA

JAPAN

AUSTRALIA (continued)

HONG KONG

MALAYSIA

SINGAPORE

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial (0891 or 0336) 430000, enter 4 and key in the five digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (071) 873 4378.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often well above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✓) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

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State Street Unit Trust Mngmt Ltd (1400)F

Stewart Ivory Unit Tst Mgrs Ltd (1200)H

Sun Alliance Unit Tst Mngmt Ltd (1200)F

Sun Life of Canada Unit Mgrs Ltd (1000)H

Sun Life Trust Mngmt Ltd (1200)H

Swiss Life Unit Tst Man Co Ltd (1200)F

TSB Unit Trusts (1200)F

T.S. Fund Managers Limited (1200)H

Templeton Unit Trust Managers Ltd

Thornton Unit Managers Ltd (1200)F

UBS Storebrand Inv Mngrs Ltd (1200)F

Waverley Unit Tst Mngmt Ltd (1000)F

Whittingdale Unit Tst Mgmt Ltd (0830)F

Woolwich Unit Trust Managers Ltd (1700)H

Lazard Investors Ltd ‡

Local Authorities Mutual Invest. Tst.*

M & G Securities Ltd

Merlin Jupiter Unit Trust Managers Ltd

Morgan Grenfell Investment Funds Ltd

Morgan Stanley International

Murray Johnstone UT Mgmt

PDFM Unit Managers Ltd

Rothschild Asset Management

J. Rothschild Fund Managers Ltd.

Stewart Ivory & Co Ltd

Thornton Unit Managers Ltd

OTHER UK UNIT TRUSTS

INSURANCES

AXA Equity & Law Life Assce

Abbey Life Assurance Co Ltd

Abbey National Life Plc

Acuma Life Assurance Ltd

AEGON Life Assurance Co (UK) Ltd

Allied Dunbar Assurance Plc

Allied Dunbar Assurance Plc - Contd.

American Life Insurance Co UK

Barclays Life Assur. Co Ltd

Black Horse Life Assurance

Britannia Life Assurance

Britannia Life Ltd

Canada Life Group

Cannon Assurance Ltd

Century Life Plc

Citibank Life

City of Westminster Assurance (z)

Clerical Medical/Fidelity Investments

Clerical Medical Investment Group

Colonial Mutual Group

Combined Life Assurance Co

Commercial Union Group

Confederation Life Insurance Co

Crown Financial Management Ltd

Eagle Star Life Assurance Co Ltd

Equitable Life Assurance Society

Family Assurance Society

Friends Provident

General Accident

General Portfolio Life Insur. Plc

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Hearts of Oak Insurance Group

Henderson Administration(z)

Hill Samuel Life Assur. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Irish Life Assurance Co Plc

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General

Liberty Life Assurance Co Ltd

Life Association of Scotland

Lifetime Assurance Co Ltd

London Life

London & Manchester Assurance (z)

M & G Life and M & G Pensions

MGM Assurance (z)

Manchester Unity Assurance

Merchant Investors Assurance Co Ltd

Mercury Life Assurance Co Ltd

Midland Life Limited

NM Life Assurance Ltd

N & P Life Assurance Ltd

National Mutual Life Assurance

Norwich Union Life Insurance Soc.

Norwich Union Life Insurance Soc. - Contd.

Norwich Union Pensions Management Ltd

Pearl Assurance (Unit Funds) Ltd

Pacific Life & Pensions Ltd

Premium Life Assurance Co Ltd

Professional Life Assurance Co Ltd (z)

Providence Capital Life Assur. Co Ltd

Provident Life Assoc. Ltd

Provident Mutual Life Assur. Assn.

هكذا من الأصل

FT MANAGED FUNDS SERVICE

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Prudential Assurance Co

Prudential Corporate Pension Funds

Scottish Amicable - Contd.

Scottish Equitable Life Assce. Soc.

Sun Alliance Group - Contd.

CMI Insurance Co Ltd

Target International Group

Hambros Fd Mgrs (CI) Ltd

Yamaichi Capital Mangmt (Guernsey) Ltd

Sanwa International (Ireland) Plc

Ulster Bank Investment Services

Yellow Sea Investment Company PLC

MANAGEMENT SERVICES

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (REGULATED)(**)

JERSEY (SIB RECOGNISED)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial (0891 or 0336) 430000, enter 4 and key in the five digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (071) 873 4378.

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Standard Bank Fund Mgmt (Jersey) Ltd						
PO Box 583, St Helier, Jersey CI 0534 67557						
International Bond 5		$-	16.11	17.04	4.52	[illegible]
Sterling Bond 3		£-	10.12	10.47	6.30	[illegible]
Sterling Cap		£-	42.78	42.80	5.30	[illegible]
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey 0534 503002						
TSB Offshore Investment Fund Ltd						
Stg Deposit Class 3	101.75	101.75	104.80		5.00	[illegible]
Gilt & Fixed Interest 3	122.18	122.18	128.58		7.31	[illegible]
Blue Chip & Gilt Edged 5	83.67	83.57	88.91		3.41	[illegible]
International Bond 5	139.88	139.88	147.05		4.82	[illegible]
UK Equity 5	284.85	273.61	288.81		1.30	[illegible]
International Equity 5	189.37	182.19	202.31		0.34	[illegible]
Far Eastern 5	178.70	179.83	189.28		0.00	[illegible]
European 5	136.88	137.68	144.92		0.00	[illegible]
Pan American 5	387.52	391.84	412.48		0.00	[illegible]
TSB Gilt Fund Ltd						
Quarterly Share 3	109.73	109.73	113.35		7.41	[illegible]
Monthly Share 3	108.25	108.25	111.82		7.51	[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Barclays Inv Funds (Luxembourg)						
41 Avenue de la Gare L-1611 010 352 404944						
Equity Funds						
European Equity 5¼		£-	0.998	1.020	0.3	[illegible]
Jap Equity 5¼		C-	1.504	1.600	0.5	[illegible]
North Am Eqty 5¼		$-	34.91	36.80	0.3	[illegible]
Pacific Eq 4¾		£-	6.858	7.090	0.5	[illegible]
Uk Equity 5¼		£-	1.136	1.211	2.8	[illegible]
Bond Fund						
International Bond 3½		$-	95.64	100.00	6.5	[illegible]
CMI Asset Management (Luxembourg) SA						
203 route d Arlon, L-1150 Lux 010 352 458825						
CMI Managed Portfolio Investment Company (a)						
Safeguard Portfolio F		£-	1.283	1.386	-	[illegible]
Growth Portfolio F		£-	1.175	1.251	-	[illegible]
Enterprise Portfolio F		£-	1.126	1.201	-	[illegible]
CMI Global Network Fund (a)						
Australasian Equity		A$-	11.789		-	[illegible]
Benelux Equity		Dfl-	22.213		-	[illegible]
Canadian Equity		C$-	9.919		-	[illegible]
SE Asia Equity		$-	14.739		0.45	[illegible]
French Equity		FFr-	67.596		0.94	[illegible]
German Equity		DM-	19.709		-	[illegible]
Iberian Equity		Pta-	807		0.01	[illegible]
Irish Equity		I£-	4.504		-	-

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

MANAGED FUNDS NOTES

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Pressure still on

WITH NO sign of monetary easing in continental Europe, analysts belive this week could see a renewed bout of pressure on currencies such as the franc, the peseta and the Danish krone.

Towards the end of last week dealers reported that informal attempts by European exchange rate mechanism members to shadow their old bands were failing as all bar the D-mark lost value.

"If European countries do not cut rates it seems that the foreign exchange markets are going to force depreciation upon them," said Mr Michael Burke, economist at Citibank in London.

UK clearing bank base lending rate 6 per cent from January 26, 1993

The reluctance of the French authorities to cut interest rates helped the franc recoup some of its lost ground last week, but dealers believe the buoyancy will be short lived.

They suspect that the French, Danes, and Belgians are attempting to delay rate cuts until August 26, when the Bundesbank meets again after its summer break. By then monetary authorities may have a better idea of whether another German rate cut is imminent, facilitating a round of cuts elsewhere in Europe.

The dollar could rise on the back of retail sales data next week, although the median forecast among analysts is for only a modest increase in July sales. But even the modest strength of the US recovery looks sturdier than any growth likely to be seen in continental Europe this year, and the dollar stands to benefit.

Sterling will probably continue to waver this week as expectations for another rate cut stand in the way of a strong advance. It may also suffer from weak domestic data. Economists expect manufacturing figures on Thursday to show that output fell in June, partly as a bounce back from strong May figures but also a reflection of slowing exports to Europe.

£ IN NEW YORK

Aug 6	Close	Previous Close
£ Spot	1.4977-1.4987	1.4957 1.4967
1 month	0.37-0.34pm	0.36 0.35pm
3 months	0.99-0.96pm	0.98 0.96pm
12 months	2.60-2.58pm	2.66 2.60pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

		Aug 6	Previous
8.30 am		81.4	81.9
9.00 am		81.4	[illegible]
10.00 am		81.3	81.7
11.00 am		81.2	81.6
Noon		81.2	81.6
1.00 pm		81.2	81.6
2.00 pm		[illegible]	81.6
3.00 pm		81.4	[illegible]
4.00 pm		81.2	81.5

CURRENCY MOVEMENTS

[illegible]

OTHER CURRENCIES

Aug 6	£	$
Argentina	1.4876 - 1.4885	0.9985 - 0.9985
Australia	2.1890 - 2.1880	[illegible] - 1.4705
Brazil	113.005 - 113.010	75.8440 - 75.8480
Finland	8.5840 - 8.6345	5.7675 - 5.7875
Greece	[illegible] - 350.300	[illegible] - 241.150
Hong Kong	11.5275 - 11.5395	7.7535 - 7.7545
Iran	2345.00 - [illegible]	1580.00 - 1590.00
Korea(Sth)	[illegible]	803.30 - 809.70
Kuwait	0.44850 - 0.44940	0.30190 - 0.30150
Luxembourg	54.00 - 54.10	[illegible]
Malaysia	3.7965 - 3.8040	[illegible]
Mexico	4.6380 - 4.6390	3.1115 - 3.1135
N.Zealand	2.7065 - 2.7100	[illegible]
Saudi Ar	5.5900 - 5.5915	3.7495 - 3.7505
Singapore	2.4005 - 2.4070	1.6135 - 1.6145
S.Af (Cm)	5.0115 - 5.0225	3.3675 - 3.3690
S.Af (Fn)	6.9360 - 6.9510	4.6650 - 4.6650
Taiwan	40.10 - 40.15	[illegible] - 27.05
U.A.E.	5.4585 - 5.4685	3.6715 - 3.6735

CURRENCY RATES

[illegible]

CHICAGO

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

EXCHANGE CROSS RATES

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	NatWestminster	6
Allied Trust Bank	6	Duncan Lawrie	6	Nykredit Mortgage Bnk	6.5
AIB Bank	6	Equatorial Bank plc	6	●Rea Brothers	6
●Henry Ansbacher	6	Exeter Bank Limited	7	Roxburghe Bank Ltd	6
B & C Merchant Bank	13	Financial & Gen Bank	7	Royal Bk of Scotland	6
Bank of Baroda	6	●Robert Fleming & Co	6	●Smith & Williamson Secs	6
Banco Bilbao Vizcaya	6	Girobank	6	Standard Chartered	6
Bank of Cyprus	6	●Guinness Mahon	6	TSB	6
Bank of Ireland	6	Habib Bank AG Zurich	6	●United Bk of Kuwait	6
Bank of India	6	●Hambros Bank	6	Unity Trust Bank Plc	6
Bank of Scotland	6	Heritable & Gen Inv Bk.	6	Western Trust	6
Barclays Bank	6	●Hill Samuel	6	Whiteaway Laidlaw	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Wimbledon & Sth West	7
●Brown Shipley	6	Hongkong & Shanghai	6	Yorkshire Bank	6
CL Bank Nederland	6	Julian Hodge Bank	6		
Citibank NA	6	●Leopold Joseph & Sons	6		
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk.	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6	Mount Banking	6		

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

NOTES– Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate'. Int: Frequency of which interest is credited to the account.

STOCK INDICES

	Aug 6	Aug 5	Aug 4	Aug 3	Aug 2	July 30	1993 High	1993 Low	Since Compilation High	Since Compilation Low
FT-SE 100	2969.8	2943.4	2941.3	2945.0	2941.7	2926.5	2969.8	2737.6	2969.8	986.9
FT-SE Mid 250	3392.8	3362.3	3349.4	3338.4	3335.3	[illegible]	3392.8	2876.3	3392.8	1379.4
FT-SE-A 350	1489.4	1476.2	1474.1	1474.4	1472.8	1464.0	1489.4	1348.7	1489.4	664.5
FT-A All-Share	1473.92	1461.06	1458.84	1458.05	1457.25	1448.78	1473.92	1086.13	1473.92	61.92
FT-SE Eurotrack 100	1272.34	1268.58	1268.09	1261.49	1252.49	1253.91	1272.34	1063.02	1272.34	900.45
FT-SE Eurotrack 200	1348.44	1340.80	1339.61	1341.55	1347.49	1343.58	1348.44	1144.79	1348.44	938.62
FT Ordinary	2361.0	2330.4	2330.3	2330.0	2329.0	2317.6	2361.0	2124.7	2361.0	49.4
FT Government Secs.	100.39	99.97	99.80	99.66	99.29	99.17	100.39	93.28	127.40	49.18
FT Fixed Interest	121.18	120.82	120.03	119.68	119.19	118.73	121.18	106.67	121.18	50.53
FT Gold Mines	203.4	218.5	231.1	234.2	247.3	249.2	249.2	80.0	734.7	43.5

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS - Cont.

[illegible]

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

[illegible]

Continued on next page

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

[illegible]

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	Wk% ch'nge	Div gross	Dividends paid	Last xd	City line
Abbott Labs		16½xd	-2.4	68c	FeMyAuNv	12.7	1503
Allegheny & W	♥	659p	7.2	30c	-	-	-
Amdahl		380p	1.7	0c	NvFeJeAu	31.1	-
Amer Cyanamid		34⅝	-3.5	$1.65	MrJeSeDe	4.3	-
Amer Express		22⁷⁄₁₆xd	1.3	$1.00	FeMyAuNv	6.7	1594
Amer T & T		42⅛xd	-2.3	$1.32	FeMyAuNv	25.6	1597
Ameritech		55¾	1.4	$3.68	FeMyAuNv	28.3	-
BankAmerica		30⅞xd	-1.0	$1.40	MrJeSeDe	18.5	1744
Bankers NY		52⅛xd	-1.3	$3.12	ApJyOcJa	24.12	1745
Bell Atlantic		36¾	-6.0	$2.68	FeMyAuNv	4.7	-
BellSouth		37¾	-4.2	$2.76	FeMyAuNv	5.4	-
Bethlehem Steel	♥	9¾xd	-8.2	-	MrJeSeDe	6.2	1821
Bowater		1339pxd	-2.5	60c	OcJaApJy	9.3	1884
CPC		27⅝xd	-.2	$1.28	JaApJyOc	28.6	2353
California Engy		1232p	-	-	-	-	-
Chase Manhattan		22⅛xd	5.1	$1.20	FeMyAuNv	27.7	2108
Chrysler		28⅝xd	-2.8	60c	ApJyOcJa	15.6	2135
Citicorp		22⅛xd	-1.1	-	-	23.10	2141
Colgate-Palm		33¾xd	-3.3	$1.44	FeMyAuNv	21.7	2184
Cont'l Bank		1588p	-1.2	80c	DeMrJeSe	31.5	-
Dana		37⅞xd	0.3	$1.60	MrJeSeDe	28.6	2306
Data General		538p	-6.5	-	-	-	-
Decora Inds	♥	118p	-4.2	-	-	-	-
Dun & Brad		39⅝	-.8	$2.44	MrJeSeDe	13.2	-
Eaton	h	30¾	-1.2	$1.10	FeMyAuNv	2.2	2410
Echlin		18⅞xd	-4.5	70c	JaApJyOc	30.6	3046
FPL		26⅛xd	-.2	$2.48	MrJeSeDe	29.5	-
Ford Motor		35¾xd	-2.1	$1.60	MrJeSeDe	28.7	2615
Gen Elect		66⅛xd	9.9	$2.92	JaApJyOc	3.6	2575
General Host	♥	589p	2.3	34c	-	13.12	-
Gillette		34⅞xd	0.5	84c	MrJeSeDe	26.7	2695
Hasbro		20⅝	-	24c	FeApJyNv	1.8	-
Honeywell		24xd	0.4	89c	MrJnSeDe	23.9	2919
Houston Inds		31¼	-.4	$3.00	MrJeSeDe	10.11	-
Ingersoll-Rand		23xd	2.5	76c	MrJeSeDe	14.5	2979
Lockheed		41¾	-7.7	$2.12	MrJeSeDe	15.2	-
Loew's	h	2477p	-2.7	25c	JaApJyOc	11.7	-

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

Eurasia Mnls	41	-23.6	-	-	-	3427
Glencar Expl	11	-	-	-	-	-
Greenwich Res	$14\frac{1}{4}$	-16.2	-	-	-	2773
Hemlo Gold C$	$88\frac{1}{2}$	-16.1	020c	- Dec Jun	8.11	-
Kenna West	43	-	-	-	-	-
Kefic Minls	12	-7.7	-	-	-	3741
Kenmare	$8\frac{1}{2}$	-5.6	-	-	-	1453
Melinga Res.	10	-9.1	-	-	-	-
Navan Res	$87\frac{1}{2}$	-2.9	-	-	-	1185
Spc Ln Notes	$88\frac{1}{2}$	-	-	-	-	-
Oryx Gold	$76\frac{1}{2}$	-	-	-	-	3868
Ovoca Res	8	14.3	-	-	-	1470
RTZ	677	0.7	19.5	1.3 Dec Aug	7.6	3880

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed, dealings permitted under Rule 535(2)
- ¤ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend, cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT.

z Dividend includes a special payment: Cover does not apply to special payment. E Auction basis. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94.

N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Business Post (Business Servs), Devro Int'l and Kerry Group (Food Manuf), Enviromed (Hlth & Hsehold) and Eaglet Ord and Wrts (Inv Trusts). Deletions: Shires Inv 11pc Cv '03-04 (Inv Trusts) and Expl Co of Louisiana (Oils).

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4 pm close August 6

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅝	11½	AAR Corp	0.48	3.5	687	381	13⅞	13½	13¾	+⅛
29⅞	13¾	A L Labs A	0.18	1.1	33	1134	16¾	16½	16¾	
64¾	54⅝	AMP Inc	1.60	2.5	22	1418	u64¾	64⅜	64½	+⅛
72¾	55½	AMR			16	5061	64¾	63½	64⅝	+1¼
2¾	1⅜	ARX			15	43	2½	2⅜	2½	
51½	29⅞	ASA	2.00	4.4	29	1699	45¼	43¾	45⅛	+¾
30¾	22⅝	Abbott Lab	0.68	2.8	15	5074	24¾	24½	24⅝	
12⅝	9⅞	Abitibi Pr	0.50	4.8	4	15	10⅜	10⅜	10⅜	
14¼	8¼	Acptnocio			231	232	13⅞	13¾	13⅞	+⅛
32	25½	ACE Ltd	0.40	1.3		636	30⅝	29½	30½	+1¼
12	10¾	ACM Gvt In	0.98	8.3		493	11⅝	11⅜	11½	-⅛
10	9⅛	ACM GvOpp	0.80	8.0		127	u10	9⅞	10	+⅛
9⅞	8¾	ACM Gvt Sp x	0.80	8.5		689	9½	9¼	9⅜	
11⅝	10½	ACM Gvt Se x	0.96	8.7		1058	11¼	10⅞	11	-¼
11⅝	9⅝	ACM Man x	1.08	9.4		253	11½	11⅜	11½	+1.09
9⅞	8⅝	ACM Managd	0.72	7.9		94	9⅛	9⅛	9⅛	
12⅜	7¾	Acme Cleve	0.44	4.1	14	143	10⅞	10¾	10¾	-⅛
9¼	6½	Acme Elect			254	3	7¾	7⅝	7⅝	
24⅞	18⅜	Acordia	0.44	1.8	14	14	u24⅞	24⅞	24⅞	
18	10⅜	Acuson			32	41	11⅞	11⅞	11⅞	
22¼	19⅝	Adams Exp	0.48	2.4	1	43	20⅜	20⅛	20⅛	-⅛
66	45½	Ad Micro	3.00	5.0		383	60	58	60	+2⅛
32¾	17⅜	Ad Micro P	3.00	10.6	11	10431	28¼	27½	28⅛	+1¼
7¾	5½	Advest Grp	0.16	2.8	10	31	5⅝	5¾	5¾	
24¾	16½	Advo Inc	0.08	0.5	18	86	16¾	d16½	16½	-¼
48⅞	41⅛	Aegon ADR	2.85	6.3	9	330	46¾	46½	46¾	+⅝
60	43⅞	Aetna Lf	2.76	4.7	40	1686	58½	57⅞	58¼	
14½	11½	AGB A	0.26	1.8	30	1155	14⅜	14¼	14¼	
32¼	28⅛	Aflac	0.40	1.3	15	776	31	30⅜	30⅞	-½
22⅛	16¾	Ahmanson	0.88	4.5	23	1977	19¾	19½	19⅝	
7¾	4	Aileen Inc			7	64	5	4¾	5	
48½	37½	Air Pr Chm	0.92	2.3	16	1187	40½	40⅛	40⅜	
26½	18⅛	Airbne Frt	0.30	1.5	26	338	20½	20	20	-½
35¼	18¾	Airgas Inc			39	198	u35¾	35¼	35¾	+½
15⅜	10½	Airlease	1.60	10.8	11	14	14¾	14⅝	14¾	+⅛
105½	101	AlaPwB.16	8.16	7.9		220	103½	103½	103½	-1½
107	102½	Alab 8.28C	8.28	7.9		1	105½	105	105	+1
18	12½	Alaska Air	0.20	1.6	2	286	12⅞	12⅝	12¾	
19	14¼	Albany Int	0.35	1.9	60	357	18¼	17⅞	18⅛	+¼
28¾	22⅛	AlCulvr B	0.25	1.1	16	65	22⅝	22½	22⅝	-⅛
25¼	17½	AlCulvr A	0.26	1.5	13	17	17⅝	d17½	17½	-⅛
58¼	48¾	Albertsons	0.72	1.4	21	1170	53¼	51⅞	52⅞	+1
20⅝	16⅞	Alcan Alum	0.30	1.5	32	2967	20½	20⅜	20½	
50⅝	35¾	Alco Stand	0.96	2.1	19	509	46	45½	45¾	+⅛
24⅝	19⅝	AlexBrown	0.60	2.5	5	390	24⅜	23¾	24⅛	+¼
28⅞	24	Alexr Alex	1.00	4.0	27	359	25¼	25	25⅛	+⅛
23¼	17	Allegh Lud	0.48	2.3	21	541	21	20⅝	20⅞	-⅜
54⅞	46⅞	Allegh Pow	3.24	6.0	14	179	54¾	54	54	-¾
45	29	Allen Gp	1.75	4.0		11	43½	43½	43½	
48½	25⅞	Allen Con	0.24	0.5	24	1156	48½	46⅛	48	+1⅞
35⅝	21¼	Allergan	0.40	1.7	14	450	23⅜	23⅛	23¼	-⅛
23¾	16¾	Allnce Cap x	1.40	6.5	24	161	21⅜	21¼	21⅜	+¼
10¼	8⅞	Allnce Gl	0.18	2.0		60	9¼	9⅛	9⅛	
24⅜	16¾	Alld Irish	0.92	3.8	14	40	24	23¾	24	+½

- B -

- C -

- D -

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- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

Continued on next page

4 pm close August 6

NYSE COMPOSITE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close August 6

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
AAWBrands	0.32	15	485	18¼	17½	17¾	-¼
ABS Inds	0.10	21	49	13	12	12⅜	-⅜
ACC Corp	0.12	39	483	16¼	15¼	16	+½
Acclaim E		44	8037	u33⅞	32⅝	33⅝	+⅞
Acme Mtls		132	432	18	17¼	17¼	-½
Acxiom Cp		30	759	19	18	18⅜	-⅛
Adaptech		14	9110	29¼	27⅞	29	+¾
ADC Tele		31	7673	u33½	32¼	33½	+1¼
Addington		45	642	u17¼	16¾	16¾	-½
Adia Serv	0.16	20	116	u26	24½	26	+¾
Adobe Sys	0.40	27	4976	54½	53¼	53⅞	+¼
Advance C		8	809	9⅜	9	9⅜	+¼
Adv Logic		4	371	3⅛	2⅞	3⅛	
Adv Polym		15	44	6⅝	6⅜	6½	
AdvTchLab		29	89	17	16½	16¾	-¼
Advanta	0.25	22	295	u53¼	52½	53	+½
Affymax		13	1153	13¾	12¾	12¼	
Agency Re		13	532	8⅝	8⅛	8⅝	+¼
AgnicoEa	0.10	48	8170	10½	9¼	9¾	-¼
Akzo ADR	2.60	11	438	43¼	43	43	-¼
Aldus Cp		68	458	18¼	17¾	17⅞	
Alex Bald x	0.88	15	773	25½	24¾	25⅛	+⅜
Allegh &W		16	106	u10¼	9¾	10¼	+¼
Allen Org	0.48	14	10	31¼	29¾	30	
Alton Ph		9	1208	12⅜	11¾	12¼	-¼
AlldCapll	1.00	14	119	17	d16	16¼	
Alld Cap	0.80	12	105	14	d13¼	13⅝	+⅜
Aloette C	0.32	11	10	6	5¼	5½	
Alta Gold	0.06	3	1203	1⅜	1 3/16	1 5/16	+1/16
Altera Co		52	1935	27⅞	27⅝	27⅝	-⅛
Am Banker	0.68	10	177	26¼	26	26¼	+¼

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Datascope		14	315	14½	14	14⅛	+⅛
DauphinDp	0.80	12	430	25½	24¾	24¾	-¾
Deb Shops	x0.20	18	13	6⅝	6⅜	6⅝	+¼
DekalbEn	0.32	111	8	17	16¼	16¾	
Dekalb Ge	0.80	19	6	25	23½	24	-½
Delchamps	x0.44	11	26	23¾	23	23	-¼
Dell Comp		8	5720	20⅜	19⅜	19¾	-⅝
DeltaOSim	0.16	24	371	20⅛	19⅝	20	+¼
Dep Gty	0.88	10	178	30½	29¾	29¾	
Devcon	0.20	10	85	8	7	7⅜	+⅛
DH Tech		12	14	14½	14	14	
Dibrell B	0.72	9	1127	24¼	d23½	24	+½
Digi Intl		20	182	20½	20	20½	+⅜
Dig Micro		20	1266	13¾	13¼	13⅜	
Dig Sound		13	583	1⅞	1⅝	1⅞	+⅛
Dig Syst		212	91	4¾	4¼	4¼	-¼
Dionex Cp		15	1691	32½	d31¼	32¼	+⅞
Dixie Yrn	0.20	15	576	11½	11	11½	+½
DNA Plant		5	3329	5⅝	5	5½	+½
Dollar Gn	0.20	29	1145	33¼	32½	32½	-¾
Dom Bkshs	0.44	56	961	u27¼	26⅞	27	
Dorch Htn	0.80	46	262	15½	14⅞	15½	+⅝
DracoEngy		22	62	u25¾	25	25¾	+¾
DressBarn		13	2140	11	10¾	11	+⅛
Drey GD	0.24	22	1275	27¼	26	26	-1
Drug Empo	0.08	33	191	6¾	6½	6¾	
DS Bancor	1.09	8	7	16	15¼	16	
Duriron x	0.60	26	1432	23¼	22½	23	+½
Dun Fill	0.30	24	8	u33⅛	32¾	32¾	
DynamcsCt		2	985	⅞	11/16	⅞	+1/16
Dynatech		12	1210	26¼	25¾	26	+¼

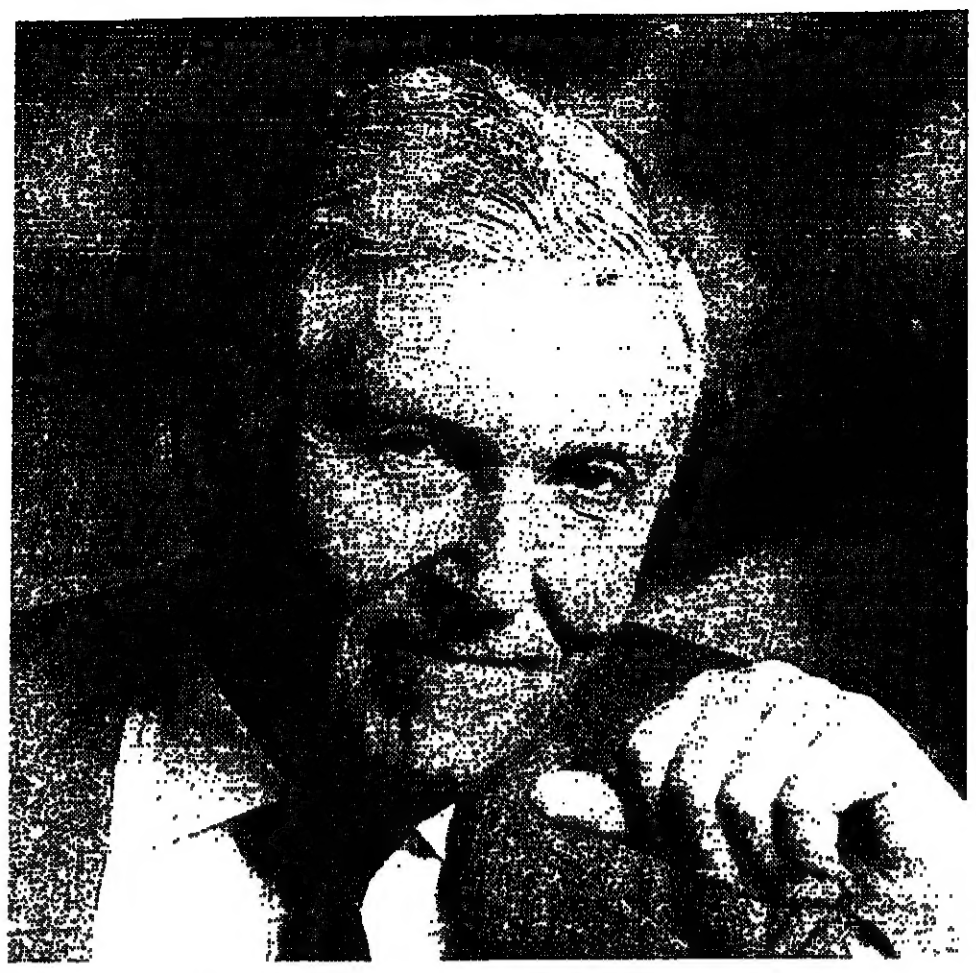
AMEX COMPOSITE PRICES

4 pm close August 6

MONDAY INTERVIEW

Music to Grumpy's ears

Sumner Redstone, owner of Viacom and MTV, talks to **Raymond Snoddy**



'I was able to begin a whole new life'

Sumner Redstone's five grandchildren always call him Grumpy. He picked the nickname himself because, although he is 70 and looks like a wise and kindly old grandfather, he did not want to sound like one.

How Redstone gets on with his grandchildren is of more than passing interest outside his family because his business is built around communicating with young people. The grandchildren also act as critics for some of the products he offers in the US and, increasingly, the world.

Redstone owns and runs Viacom, the fast-expanding media group which controls television channels including MTV, the international purveyor of pop and video culture, and Nickelodeon, the successful US children's channel which will be launched in the UK next month as part of British Sky Broadcasting's new subscription package of 14 channels.

This business has given Redstone personal wealth estimated at more than $3bn, the majority accrued over the past few years when most men would already have retired. Until he was 64, and before he bought Viacom in 1987, Sumner Redstone was worth merely a few hundred million dollars.

"Viacom has been the most exciting, fun experience of my life. I work with everyone. I'm involved with everyone," says Redstone, who could be a surrogate grandfather for many of his staff, whose average age is 27.

Viacom's interests range from cable television systems in west and mid-west America to five television stations and 14 radio stations. The programme channels are at the heart of the business: MTV is available in more than 200m homes, including in Europe and Asia, and MTV Latin America in Spanish will be launched on October 1.

There is also VH-1, a music channel for 25- to 49-year-olds, and Nick At Nite, general entertainment for young adults, which takes over from Nickelodeon in the evening – both are coming to the UK next year as part of the Sky package. In addition, Viacom owns two subscription film channels and syndication rights to comedies such as The Crosby Show and Roseanne.

"This is essentially a software-driven company," says Redstone. "Our mission is to drive [the programmes] to every place in the world and to every new application."

His goal is not solely to make as much money as possible. An old-fashioned Boston liberal, he says he is aware of the responsibilities of being involved in the creation of an international youth culture.

Redstone encourages certain limits on what is permissible. For example, MTV rejected Madonna's latest, erotic pop videos on grounds of taste, in the face of considerable criticism about censorship as well as potential financial loss.

The channel may still be 85 per cent music, but it is also starting to do other things. For instance, MTV covered the US presidential campaign and interviewed Bill Clinton on his way to the White House. At the MTV Inaugural Ball, President Clinton acknowledged that MTV had "a lot to do with his victory" by persuading hundreds of thousands of new voters to register.

The programme Fifteen on Nickelodeon, aimed at the high-school audience in the US, deals with difficult issues such as drugs and sex. As part of Nickelodeon's Aids coverage, a condom was shown in a programme for young children. "I was crying. I literally was crying as I watched that programme. I felt so proud. That would never have appeared on public broadcasting," says Redstone.

Economics and idealism, Redstone insists, go together. He has a vision of an international children's channel, created with local partners – "a chance of an international lobby for the kind of world we want to live in". But he talks about money with equal fluency and enthusiasm.

The Viacom chairman is excited that, in the wake of his leveraged $3.4bn purchase of the company, its average rate of bank borrowing has fallen substantially. He also points out Viacom's senior debt was upgraded last year by Standard & Poor's, the credit rating agency, to investment grade, and this year $100m will go to the bottom line from interest savings, owing to the reduction in debt levels.

Last year Viacom had net earnings of $49m, compared with a net loss of $50m the previous year, boosted by strong performances by MTV networks and from the company's cable television division. Last month, it reported operating profits of $107m for the second quarter, an increase of 11 per cent over the same period last year.

Redstone's present media success is a long way from the start of his life, as a justice department lawyer. Lawyers, he believes, are "the worst dissipators of human and economic resources I know".

PERSONAL FILE

- **1923** Born Boston.
- **1944** Graduated in law from Harvard in 2½ years to work on breaking Japanese military codes.
- **1948-51** Special assistant to US attorney general.
- **1967-** President and chief executive, National Amusements.
- **1987-** Chairman, Viacom International and Viacom Inc.

He moved across to business and, with his father, Michael, helped to develop drive-in cinemas in the 1950s, and later became a pioneer of multi-screen cinemas. He still owns National Amusements, which has more than 800 screens in the US and the UK,owns the name Multiplex, and is president of the Theatre Owners trade organisation.

In 1979, Redstone's life was settled and seemingly secure. All that changed one night in a Boston hotel fire.

"It's impossible to explain how bad it was. I was covered in flames," he says. He managed to climb out of his third-floor window and hang on to the window ledge by his finger-tips until help arrived.

At first he was not expected to survive. Then he was told he would not be able to walk. But after 60 hours of skin grafts and a lot of determination, Redstone is now a regular tennis player again.

"I have no nightmares about it. What makes me feel very happy is that all of this at Viacom came after the fire so I was able to begin a whole new life," he says.

The new business career began almost by accident, when he started taking stock positions in Hollywood companies ranging from Columbia to MGN Home Entertainment. His knowledge of how their products – the movies – were faring at the box office gave him an edge.

Redstone bought a few thousand shares in Viacom in 1985 in the hope of selling them at a profit. He started asking questions about Viacom, and the answers made him consider a more serious role in the company. "It was the flip side of motion picture exhibition," he says. Cinema exhibition was a mature business, but Viacom was in the vanguard of its most dangerous rival – home entertainment.

In his 60s, Redstone mounted his first big hostile takeover – in competition with a Viacom management buy-out team. "We had to B-O-R-R-O-W [spelling it out for emphasis] $500m in connection with this company. At National Amusements if we borrowed $10m or $15m, that was a major event."

He lured away the highly regarded Frank Biondi – former head of the Home Box Office pay TV movie channel and chairman of the Coca-Cola Television production company – in a multi-million dollar deal to run Viacom.

One of the strengths of the Redstone-Biondi team is in assessing the new opportunities technology is creating for programme distribution, and the growing links between telephone and cable companies.

Viacom recently linked up with American Telephone and Telegraph to test everything from video-on-demand television services and multi-player games to home shopping at the Viacom cable system in Castro Valley, California.

All the new technical opportunities could provide new outlets for Viacom programmes. Referring to his cinema experience, Redstone argues: "If the motion picture worked, the theatres worked. It's the same with the [television] programmes."

He has no intention of easing up, and he says another big acquisition, perhaps of a Hollywood studio, has not been ruled out.

He is still having difficulty coming to terms with one aspect of Viacom – MTV music: "It's not exactly my demographic. I enjoy the dancing, the excitement, the sensuality, but I still like Benny Goodman, Arty Shaw, Tommy Dorsey."

How not to give a moral lead

Pope John Paul II's draft encyclical allows no role for the individual conscience, argues Andrew Adonis

Since it still claims a universal mission, there is no presumption in a non-Catholic writing about the affairs of the Roman Catholic Church.

Indeed, for a lay Anglican, I have got to know recent Popes unusually well. Not that I have ever met one. But it was once my lot to read the tomes of papal encyclicals issued over the past century, and they cast a cruel light on Rome's renewed crusade against birth control and internal dissent.

The toil was not, alas, a course of instruction on the meaning and sanctity of life. It was an attempt to get to grips with the mercurial concept of subsidiarity, an idea made flesh in successive encyclicals since Leo XIII's *Rerum Novarum* (1891), including Paul VI's controversial *Humanae Vitae* (1968).

Subsidiarity, remember, was a cornerstone of the Maastricht treaty. As the rest of the temple crashes to the ground, it still stands as Jacques Delors's Vatican-inspired solution to the challenge of building a European state without destroying its peoples' way of life.

The ideas behind subsidiarity are simple. Leave unto God what is God's, and within Caesar's realm, pass power down as far as possible, preferably to local communities and families, the building blocks of society.

The problem, of course, is to decide what rightly belongs to the Almighty and what to Caesar; and then to find a formula for determining who should decide those matters which are left to the state.

The nearest the Vatican has come to tackling that is *Quadragesimo Anno*, Pius XI's riposte to Mussolini's ambitions to nationalise church activity. Governments, warned Pius, would "carry out with greater freedom, power and success the tasks belonging to them alone" if they left matters of lesser importance "to smaller groups". Those in charge should know when to desist, and ought to be solicitous of the views and circumstances of "lower societies".

Now, as anyone who has ever watched or participated in the political game ought to know, this is pie in the sky. Without formal checks and balances, achieved through blood or sweat (and usually both), virtually no society in history has for any long period secured rulers obedient to such precepts.

Which brings us straight to *Veritatis Splendor*, the draft encyclical awaiting the present Pope's signature. For the most striking thing about the modern papacy – forget Galileo – is its contempt for its own precepts.

Consider Rome's attitude to the "lower societies" in its own communion. Back at the first Vatican Council of 1870, when the principle of papal infallibility was codified, the Church as a whole was pronounced infallible, and the Pope was enjoined to consult the brethren before exerting authority.

What process of consultation has there ever been on the question of birth control? Before *Humanae Vitae* a papal commission was established to investigate and solicit views on the issue. A majority of the commission apparently recommended a relaxation of Catholic teaching on the issue, but Paul VI insisted on a blanket ban on "any action which either before, or at the moment of, or after sexual intercourse, is specifically intended to prevent procreation".

This time round, there has not even been a commission. There have been "consultations" with bishops' conferences and interested parties – but if the published drafts of *Veritatis Splendor* are remotely accurate, the Church in western Europe and North America was given the deaf ear.

Anyway, why does John Paul II feel it necessary to dictate to the "lower societies" on the issue at all? If subsidiarity means anything within the Church, then surely on matters not critical to faith the Pope should refrain from imposing his will and allow the Church on the ground to apply its own Christian conscience to the moral and social problems besetting its members.

John Paul's response, according to the published draft, is highly convoluted, but it seems to run like this. The Church's moral teachings "while they are to be distinguished from the assent to faith, nevertheless enlarge it". The "natural law" from which they are drawn is "universally valid" and only the Pope is capable of expounding its "binding nature". And once expounded, the faithful have no choice but to obey since obedience to the natural law is "necessary for salvation" and "dissent stands in opposition to the unity of the Church".

In other words, there is no role for individuals and "lower societies" to apply their conscience to any moral question once the Pope has expounded the natural law – law which, by its nature, is not written down definitively anywhere save in past papal pronouncements, themselves reflecting the conscience of Christians in previous generations applied to *their* circumstances.

So much for subsidiarity. The net effect in the west, of course, will be further to undermine Catholic teaching and to leave in a moral quagmire Catholics who believe there is any role for individual conscience.

The tragedy is the damage John Paul II will do to the very notion of moral and spiritual leadership. For at last, the liberal conceit that we always know what is best for us is biting the dust. But as a community in search of a credible moral lead, where do we look? Certainly not to a papacy which rejects outright Newman's profound wisdom that "conscience is the first of all the vicars of Christ".

VW versus the old school

Calling a meeting in the holiday period showed that pressure was mounting

We can let our industrial structure collapse like the English did, and then the Japanese will come here and have us build cars in Germany from mostly prefabricated parts. For that you need a couple of young people, and they will be more than glad to have any kind of a job," says Mr Ferdinand Piëch.

The Volkswagen chairman may not be much of a diplomat, but as a visionary he is worth a hearing. It is readily acknowledged that much of German industry is overweight, overmanned and overdue for an overhaul.

But is Mr Piëch overdoing things? His colleagues in industry goggled enviously last March when he recruited Mr José Ignacio López de Arriortúa, General Motors' star procurement chief, and seven of Mr López's parts-buying "warriors". They were shocked when GM was forced to use the courts to stop his attempt to lure another 40 from the buying department at Adam Opel, the GM German subsidiary.

And they were struck dumb by what followed. GM's espionage charges were stunning in themselves, and Mr Piëch's more recent nationalistic war declarations and charges that GM had conspired to pervert the course of justice deeply disturbed the political and industrial establishment.

But the smoke and noise from these fronts have tended to obscure another conflict at ground level, where Mr López's warriors are bludgeoning price cuts out of VW suppliers. Late last week, the VDMA engineering and plant makers' association begged for mercy and a return to "civilised" ways of doing business.

Large industrial customers – especially the motor industry – were using "extortion" and "extreme aggression", it said. Parts buyers demanded to be given foundry moulds and construction drawings, saying continuity of supply had to be ensured should the suppliers go bust.

Such bully-boy tactics were previously unknown in the co-operative, consensus-oriented world of German commerce.

Still, no one – least of all General Motors – can deny the efficacy of the López slimming cure. It made Adam Opel, GM's German subsidiary, into the most profitable carmaker in Europe when he was based there in the 1980s. And last week the US parent surprised the world with a $889m second-quarter net profit compared with a $703m loss a year earlier.

Most striking of all was the fall in the deficit in the core north American business, from $761m to $95m – all attributed to cost-savings. Mr López and his warriors had been at work in Detroit for just 10 months when they left in March.

Success at Opel, however, came when the German economy was expanding. And results in the US were achieved in a no-holds-barred free market that is far more flexible, far more used to implementing harsh hire-and-fire policies, than Germany's vaunted "social economy".

It is clear from the German engineering association's claims that other companies are now following the López example – put brutally, kicking the man on the next rung down the ladder. Instead of calm consensus, there is a growing atmosphere of every man for himself.

Bosch, however, the country's mightiest car parts supplier and a company of the old, more courteous school, believes it can stand above the fray. It says it will follow its own cost-reduction plans at its own pace, and refuse to bow to unreasonable demands.

The company's executives suggest privately that an organised front among lesser companies could deny VW its clamour for pound after pound of flesh.

Is a new consensus – the rest against VW – possible?

The absence of public backing for VW's policies and tactics from industry or the political establishment – although both are anxious for a lasting cure to Germany's economic ills – suggests VW is moving out on a limb.

An extraordinary meeting of the company's supervisory board, called unexpectedly on Friday, resulted in an extraordinary display of confidence in the effectiveness and honesty of VW's dream team. But the fact that it was called at all, when most of Germany was away on holiday, demonstrated mounting pressure.

Even if Mr Piëch pulls off his ambition of returning VW to break-even this year and profit thereafter, it is likely to be partly at the expense of the components industry.

All native German automotive companies' basic strategies depend on increased purchasing of parts from abroad, and on moving vehicle production closer to markets and into lower-cost production zones outside Germany.

Most, Volkswagen included, see this as the best long-term solution to their difficulties. But VW, the country's biggest carmaker and by definition its biggest components user, by aggressively pursuing its own immediate aims, could damage the close-knit network of component suppliers and the collaborative relationship between German carmakers.

In the longer term this could put at risk the home base, on which the whole industry relies to sustain its long-term metamorphosis.

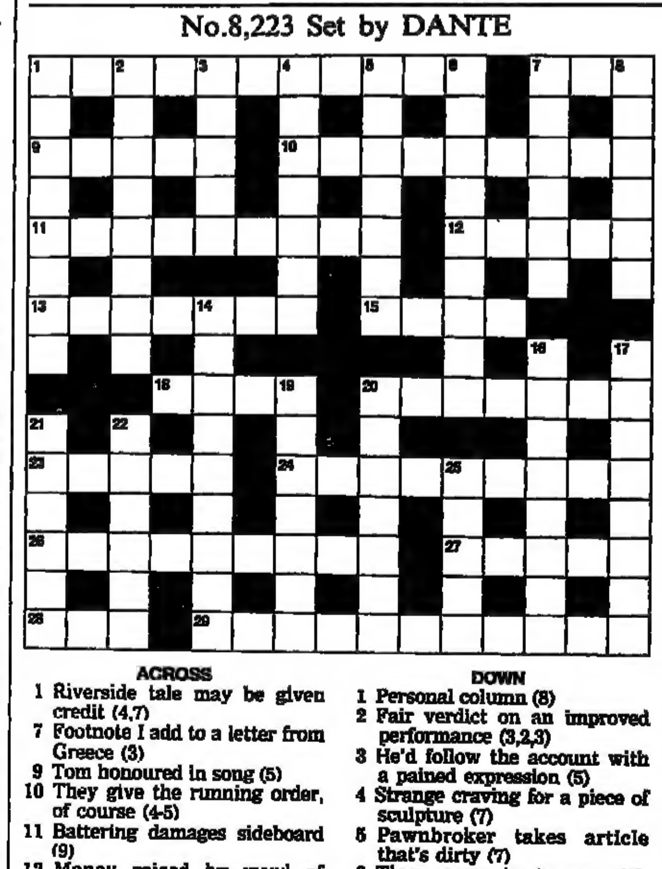
Mr Piëch explains his ardour with claims that the German industry has only two years – the time before Japan's current voluntary quotas expire – to match up to its arch-competitors' cost structures. But even he accepts he cannot come within striking distance in less than three years.

Mr Piëch is making a bold gamble. That his more traditionally minded, long-termist colleagues at Mercedes-Benz, BMW and elsewhere have not thrown their weight behind him suggests they still need to be persuaded he is on to a winner. The legal threats confronting Mr López, on whom the VW chairman has staked his reputation, do not improve his chances of success.

Christopher Parkes

CROSSWORD

No.8,223 Set by DANTE



ACROSS

1 Riverside tale may be given credit (4,7)
7 Footnote I add to a letter from Greece (3)
9 Tom honoured in song (5)
10 They give the running order, of course (4-5)
11 Battering damages sideboard (9)
12 Money raised by word of mouth (5)
13 Moving in range (7)
15 One after another (4)
18 Spring is something one may associate with flowers (4)
20 Meeting that has no standing? (7)
23 Turn to her or someone else (5)
24 One who may be troubled with heat burns? (9)
26 Upholstery material that is harsh or rough (9)
27 Sensational piece of luck getting free (5)
28 One who fishes for perch (3)
29 But a blunt question may incur it (5,6)

DOWN

1 Personal column (8)
2 Fair verdict on an improved performance (3,2,3)
3 He'd follow the account with a pained expression (5)
4 Strange craving for a piece of sculpture (7)
5 Pawnbroker takes article that's dirty (7)
6 They come to terms with cakes and sweets (4-5)
7 A drink at the station? (6)
8 Where such dealers may end up? (6)
14 They're denied freedom to express their political views (9)
16 Recall having a tie (8)
17 I'd return to root out a poacher (8)
19 Mother hides a mark with cosmetics (7)
20 Hot spot turns out to upset father (7)
21 Tom goes up to her, naturally (6)
22 Given support or cast out (6)
25 Freestyle wrestling can leave one so exhausted (3,2)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday August 21.